

Post election recap

A Trump Presidency and what it means for taxes, tariffs and planning in the year ahead

In the immediate aftermath of the 2024 election, Donald Trump is the projected winner of the Presidential Election and Republicans will take control of the Senate. There is still much to digest in terms of what may be feasible from a tax and planning perspective heading into 2025 and beyond.

All eyes are on the House of Representatives, which remains narrowly undecided as of the writing of this article. The determination of which party will control the House could come down to a couple of seats. The balance of power in the House will determine what is possible under an incoming Trump Administration – a Democratic majority will force compromise, whereas a Republican majority will allow for a GOP sweep of power.

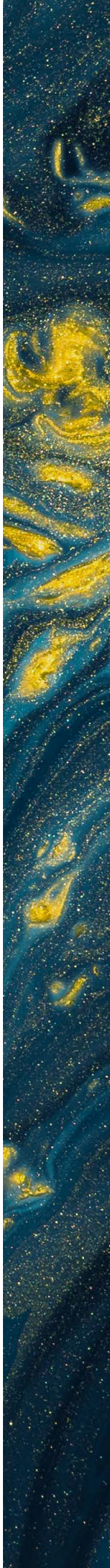
Trump Presidency – What to Expect for Trade and Taxes:

Trump campaigned on several significant agenda items, including immigration reform, sweeping new tariffs on imports, freezing certain climate-related regulations and changes to federal health regulations. Although some of his biggest campaign promises (or policy proposals) – tax law changes and changes to the Affordable Care Act – require Congressional approval, many do not. Notably, tariffs are an economic tool that Trump can implement without Congressional approval.

Tariffs:

It is possible that the Trump Administration in its earliest days in office will impose tariffs and may make other changes out of the gate that do not require Congressional support. Trump has proposed very high tariffs (up to 60% on China), potentially raising US tariff rates to their highest since the 1930s. Tariffs may contribute to inflation, causing increases in consumer prices, but it is noteworthy that tariffs can be used as a mechanism to influence other policies. For example, tariffs may be a powerful political tool used to pressure Mexico on immigration or to raise revenue and reduce the US trade deficit as the GOP looks to implement and extend tax cuts before the Tax Cuts and Jobs Act (TCJA) expires in 2026.

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Tax Policy in 2025:

Tax cuts are another top agenda item for the incoming administration. If Republicans take the House, it is expected that there will be a new tax law package, which could come as soon as the summer of 2025. Whether the tax proposals are an extension of the TCJA (which is estimated to add anywhere from \$5-7 trillion to the deficit over the next 10 years) or an entirely new tax package remains to be seen.

Trump campaigned on tax proposals that were not part of the TCJA (such as lower corporate tax rates and exempting tips, Social Security benefits and overtime pay from income taxes) and it is projected those campaign proposals would add an additional \$4 trillion to the deficit over 10 years. Additionally, the state and local tax (SALT) deduction was a primary revenue driver to pay for the TCJA, but the makeup of the Republican caucus today is different than it was under the TCJA enactment in 2017. There is less of an appetite to extend SALT caps to fund a tax package. While tariffs could offset some of the cost of these provisions, the new Trump tax package will be a math equation with significant budgetary constraints.

Estate taxes:

One item that is top of mind is the looming sunset of the estate tax exemption in 2026. The cost to extend the higher lifetime exemption is relatively small (\$183 billion over 10 years, making it one of the “cheaper” provisions); conversely, retaining higher exemptions is viewed as something that only benefits the ultra-high-net-worth, so it may be less of a priority for lawmakers.

Interest rates:

The consensus of economists and investors alike is that tariffs put upward pressure on inflation. Tax cuts, which generate economic growth, add to budgetary deficits, which is already a significant concern. Taken in tandem, higher tariffs and lower taxes may result in higher interest rates and upward pressure on yields.

Regulatory outlook:

Under the incoming Trump Administration, the general sentiment is that the financial security industry is in a stronger position on the regulatory front. The Department of Labor’s most recent attempt to regulate financial advice under its Retirement Security Rule was curtailed by the courts, but under the new presidential administration there could be an attempt to act legislatively on the issue of fiduciary advice, bringing clarity to this long-debated issue.

The road ahead:

It’s too early to predict what may happen from a tax law perspective, particularly given that the House is still undecided. If the Democrats take the House, negotiated compromise will be a necessity. Under this scenario, it is likely that the TCJA will sunset, understanding there may be an attempt at compromise to extend certain provisions. Even if the Republicans sweep, Congress is unlikely to be able to pass legislation that includes everything on Trump’s economic “wish list” – there are very real budgetary and economic constraints that have to be grappled with. What can be enacted in a future tax bill is ultimately a math equation.



Our message heading into year-end hasn't changed – life insurance continues to be a vital planning tool for clients. The need for liquidity is often immediate and should not be put on hold until there is more clarity around what could happen from a tax law perspective. Even in light of estate planning uncertainty, there are so many tools to help clients move forward with liquidity needs now, including:

1. **Spousal access provisions** – trusts can be drafted with incredible flexibility that can include providing a spouse access to trust assets.
2. **Trust financing** – in light of uncertainty, if clients are hesitant to make decisions on gifting, they can fund their life insurance via a trust financing technique, such as a private finance/AFR loan or private split dollar. These techniques enable the client to take a “wait and see” approach to gifting while funding the insurance need today.
3. **Policy options** – policy features such as the Estate Preservation Rider (EPR) can give clients the comfort to move forward with insurance planning. The EPR, available on survivorship policies, could allow a client to purchase a policy personally and then gift or sell the policy to their ILIT if and when there is greater clarity around the estate tax exemption in 2025. The EPR, which increases the death benefit in the first four policy years, provides protection against estate tax inclusion if the policy is brought back into the estate under the three-year look back rule.

Additionally, the tax diversification story should continue to resonate in 2025. With the strong reaction of the equity markets to the election results, some planners will consider taking profits from some appreciated securities positions and using the net after-tax proceeds to fund a permanent life insurance policy. The downside protection built into the IUL chassis is a popular feature for financial professionals considering diversification strategies for their clients who also want to maintain access to the upside potential such a product provides. The diversification story has multiple layers. Financial professionals can discuss:

- (1) asset diversification,
- (2) market risk diversification,
- (3) tax diversification,
- (4) diversification of financing the costs of morbidity risk and
- (5) diversification of financing the costs of mortality risk.

Our Advanced Markets team is here to help **navigate these issues and more.**

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Trusts should be drafted by an attorney familiar with such matters in order to take into account income and estate tax laws (including the generation-skipping tax). Failure to do so could result in adverse tax treatment of trust proceeds. There can be costs associated with drafting a trust.

Some riders may have additional fees and expenses associated with them.

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