ADVOCATE CAPITAL MANAGEMENT, LLC

2024 U.S. Elections – A Probabilistic Fiscal Analysis of the Harris and Trump Tax Plans

Democracy is the worst form of government, except for all those other forms that have been tried from time to time.

- Winston Churchill

On November 5th, U.S. citizens will cast their quadrennial vote for two very different visions of the future. With a little more than two weeks to go until Election Day, Advocate attempts to quantify the fiscal impact of each presidential candidate's tax plan under various congressional-control scenarios and provide our assessment on the potential impact on fixed income markets. Readers might be surprised to find that while the Harris Tax Plan is likely to result in a projected 10yr net fiscal surplus range of $700Bn to $2.2Tn, the Trump Tax Plan could, depending on the outcome of congressional elections, produce an even larger surplus.

Analysis of the Candidates' Tax Plans

Advocate's goal is to quantify the net fiscal change over the next 10 years resulting from the tax plan of either a President Harris or a President Trump under various congressional-control scenarios. Our analysis builds on the Tax Foundation's analysis of the revenue impact of the Trump[1] and Harris[2] tax proposals. Readers should bear in mind Mike Tyson's famous warning - "Everybody has a plan until they get punched in the face." While neither candidate's tax plan is likely to survive wholly unscathed in 2025 when political promises clash with political reality, quantifying the net impact of each tax plan in various election scenarios can provide some useful insights.

In keeping with economic convention, the net impact shown is the cumulative simple sum of annual revenue impact from 2025 to 2034. In other words, no discount factor has been applied to present-value future cashflows. We apologize to vexed fixed income afficionados who balk at simply summing future cashflows.

[1] Erica York, Garrett Watson, Alex Durante, Huaqun Li, *Donald Trump Tax Plan Ideas: Details and Analysis.*, Tax Foundation. https://taxfoundation.org/research/all/federal/donald-trump-tax-plan-2024/
[2] William McBride, Erica York, Garrett Watson, Alex Muresianu, *Kamala Harris Tax Plan Ideas: Details and Analysis*, Tax Foundation. https://taxfoundation.org/research/all/federal/kamala-harris-tax-plan-2024/

The Trump Tax Plan and Estimated 10-Year Revenue Impact

The elements of the Trump Tax Plan are summarized in the following table.

FIGURE 1. ESTIMATED NET FISCAL IMPACT OF THE TRUMP TAX PLAN FROM 2025 TO 2034 ($BN)

Item	Rev Impact 2025 - 2034 ($Bn)	Require Tax Legislation?*
Revenue Negative		
TCJA Extension – Individual	-$3,392	YES
TCJA Extension – Business	-$643	YES
TCJA Extension – Estate Tax	-$206	YES
Exempt SS Benefits from IT	-$1,189	YES
Full SALT Deduction	-$1,040	YES
Exempt Overtime Pay from IT	-$748	YES
Domestic Production Activities Deduction (DPAD)	-$361	YES
Exempt Tips from IT	-$118	YES
Itemized Deduction for Auto Loan Interest	-$61	YES
Revenue Positive		
Tariff – 20% on all plus raise tariffs on imports from China	+$3,824	NO
Repeal of Green Energy Tax Credit	+$921	YES
Total (Sum Cashflow, Non-NPV)	**-$3,013 Bn**	

**Advocate assessment of whether tax legislation is required to enact plan*
Sources: Trump Campaign, Tax Foundation, Advocate

The Tax Foundation estimates that the net revenue impact of the Trump Tax Plan over the next 10 years would amount to a little over -$3Tn. The $3Tn fiscal deficit from the Trump Tax Plan is in addition to the current projected fiscal deficit. This is the bottom-line scenario in which ALL the elements of the Trump Tax Plan are enacted.

The Harris Tax Plan and Estimated 10-Year Revenue Impact

The elements of the Harris Tax Plan are summarized in the following table.

FIGURE 2. ESTIMATED NET FISCAL IMPACT OF THE HARRIS TAX PLAN FROM 2025 TO 2034 ($BN)

Item	Rev Impact 2025 - 2034 ($Bn)	Require Tax Legislation?*
Revenue Positive		
Individual		
Raise Medicare tax from 0.9% to 2.1%	+$258	YES
Expand NII tax base to active pass-thru income	+$258	YES
Tax Unrealized Gains > $5mm at death & 28% cap gains >$1mm	+$172	YES
Raise top tax rate on individual income to 39.6%	+$171	YES
Raise Net Investment Income (NII) from 3.8% to 5%	+$125	YES
Tighten Estate and Gift Tax Rules	+$94	NO
Tax on High-Income Taxpayers with Large Retirement Accnts	+$64	YES
Miscellaneous Tax Increase on Pass-Thru Firms	+$22	YES
Others	+$41	YES
Corporate		
Raise Corporate Tax Rate to 28%	+$883	YES
Raise Corporate Alt Min Tax from 15% to 21%	+$346	YES
21% GILTI Minimum Tax Rate and other GILTI changes	+$278	YES
Modify Limit on Deduction of Excessive Employee Comp	+$266	NO
Section 265 and World Interest Limitation	+$187	MAYBE
Repeal FDII	+$92	YES
4% Excise Tax on Stock Buybacks	+$79	YES
Miscellaneous	+$34	YES
Other		
25% Min Tax on Unrealized Gains for Net Worth > $100mm	+$517	YES
Levy on Undertaxed Profits on Large Multinationals	+$225	YES
Changes to Tax Compliance	+$25	NO
Revenue Negative		
Make ARPA Child Tax Credit Permanently + $6k CTC newborns	-$1,589	YES
Make Expanded ARPA Premium Tax Credits Permanent	-$238	YES
Housing Tax Credits ($25k homebuyer credit, etc)	-$224	YES
Make Expanded ARPA Earned Income Tax Credit Permanent	-$160	YES
Exempt Tips from IT	-$118	YES
Replace FDII with R&D Incentive	-$92	YES
Increase Startup Expense Deduction from $5k to $50k	-$25	MAYBE
Total	**+$1,698**	

**Advocate assessment of whether tax legislation is required to enact plan*

Sources: Harris Campaign, Biden FY 2025 Budget, Tax Foundation, Advocate

The Tax Foundation estimates that the net revenue impact of the Harris Tax Plan over the next 10 years would amount to about +$1.7Tn. The $1.7Tn fiscal surplus from the Harris Tax Plan is in addition to the current projected fiscal deficit. This is the bottom-line scenario in which ALL the elements of the Harris Tax Plan are enacted.

Control of the U.S. House of Representatives and the U.S. Senate

Given that both candidates' tax plans will require new tax legislation to be enacted, the outcome of elections in the House of Representatives and the Senate will clearly have an impact. Rather than looking at polls, we assess House and Senate win-probabilities by looking at where people are putting their money on the control of the U.S. House and Senate.

FIGURE 3. BETTING MARKETS EXPECTATION OF CONTROL OF U.S. HOUSE OF REPRESENTATIVES AND SENATE

Institution	Smarkets	Polymarket
U.S. House	DEM: 63.3%	DEM: 55%
U.S. Senate	REP: 81.3%	REP: 81%
Likely Outcome	**House: DEM, Senate: REP**	**House: DEM, Senate: REP**

Betting Markets Data as of Oct 16, 2024. Sources: Smarkets.com, polymarket.com

Split control of the House of Representatives and Senate seems to be the market consensus, at least according to punters. Split control need not necessarily spell doom for the tax plans of either candidate as there remains a small number of Senators (and probably fewer Representatives) from both party who have successfully reached across the political aisle to achieve compromise.

The Origination Clause of the U.S. Constitution (Article I, Section 7, Clause 1) stipulates that "All Bills for raising Revenue shall originate in the House of Representatives". As the House has behaved in a more partisan nature than the Senate in recent years, the party that ends up with control of both the House of Representatives and the Presidency (but not the Senate) would likely have an edge in getting tax legislation initiated.

Probability, Shmalbability

Any realistic assessment of these tax plans must include the calculus of House and Senate control. We outline four congressional-control scenarios and their possible impacts on the passage of both candidates' tax plan: Current Expectations (Democrats capture the House, Republicans capture the Senate), Republicans Sweep (Republicans win both House and Senate), Democrats Sweep (Democrats win both House and Senate), and Status Quo (Republicans maintain control of House, Democrats maintain control of Senate). Scenarios in which the House and Senate controls are split or are both controlled by a party different from the President's would mean a reduced chance of passage for the President's tax plan.

For each congressional-control scenario, we assign a probability of passage to each candidate's tax plan elements. The probability is dependent upon whether the element's passage 1) requires tax legislation, 2) may require tax legislation, or 3) may be accomplished by executive order or administrative action and hence does not require tax legislation. The probability of the "maybe" category is set at the halfway point between the legislation and non-legislation probabilities. A low probability reflects both a lower likelihood of tax legislation passage and the necessity to water-down the President's tax plan in order to achieve passage.

1) **Current Expectations** - **Democrats win House, Republicans win Senate.** Democratic control of the House would convey an edge in the passage of a Democratic President's tax plan. We assign a 60% probability of passage of Harris' Tax Plan and 50% for Trump. The difference is due to the Origination Clause and the relative advantage to Democrats in this scenario.
2) **Republicans Sweep - Republican retain House and win Senate.** We assign a 100% probability of President Trump getting his tax plan passed, while President Harris is likely to only get 20% of the legislation-required portion of her tax plan implemented.
3) **Democrats Sweep - Democrats win House and retain Senate.** We assign a 100% probability of President Harris getting her tax plan passed, while President Trump is likely to only get 20% of the legislation-required portion of his tax plan implemented.
4) **Status Quo** - **Republicans retain House, Democrats retain Senate**. Republican control of the House would convey an edge in the passage of a Republican President's tax plan. We assign a 60% probability of passage of Trump's Tax Plan and 50% for Harris.

The tables below summarize Advocate assessed passage probabilities of each candidate's tax plans under various congressional-control scenarios.

FIGURE 4. ADVOCATE ASSESSED PROBABILITY-OF PASSAGE OF VARIOUS ELEMENTS OF PRESIDENT HARRIS' TAX PLAN

Scenario	House	Senate	Requires Legislation	May Require Legislation	Does Not Require Legislation
Current Expectations	DEM	REP	60%	80%	100%
Republicans Sweep	REP	REP	20%	60%	100%
Democrats Sweep	DEM	DEM	100%	100%	100%
Status Quo	REP	DEM	50%	75%	100%

Source: Advocate

FIGURE 5. ADVOCATE ASSESSED PROBABILITY-OF PASSAGE OF VARIOUS ELEMENTS OF PRESIDENT TRUMP'S TAX PLAN

Scenario	House	Senate	Requires Legislation	May Require Legislation	Does Not Require Legislation
Current Expectations	DEM	REP	50%	75%	100%
Republicans Sweep	REP	REP	100%	100%	100%
Democrats Sweep	DEM	DEM	20%	60%	100%
Status Quo	REP	DEM	60%	80%	100%

Source: Advocate

Net Fiscal Impact Under Various Congressional Control Scenarios

The outcome of the probability-weighted 10yr net fiscal impact analysis is shown in the table below.

FIGURE 6. PROBABILITY-WEIGHTED NET FISCAL IMPACT (2025 – 2034) OF HOUSE AND SENATE CONTROL ON THE TAX PLANS OF TRUMP AND HARRIS ($BN), BOLDED ITEMS INDICATE FULL PASSAGE OF EITHER CANDIDATE'S TAX PLAN.

Scenario	House	Senate	Harris Presidency	Trump Presidency
Current Expectations	DEM	REP	+$1,205	+$405
Republicans Sweep	REP	REP	+$712	**-$3,013**
Democrats Sweep	DEM	DEM	**+$1,698**	+$2,456
Status Quo	REP	DEM	+$2,187	-$278

Sources: Tax Foundation, Advocate

Congressional control introduces considerable uncertainty into the net fiscal impact of the candidates' plans. While the Harris Tax Plan could see a 10yr net impact variance of $1.5Tn (from +$712Bn to +$2.187Tn) depending on House and Senate control, the Trump Tax Plan may see a 10yr net impact swing of as much as $5.5Tn (from -$3.013Tn to +$2.456Tn). The large variance in the net impact of the Trump Tax Plan is because the largest revenue-positive element (raising trade tariffs) can be implemented by executive order[3]. As a result, the success or failure of tax legislation would largely impact the revenue-negative side of the Trump Tax Plan while leaving the revenue-positive trade tariffs largely untouched.

As Trump's trade tariff policy appears to be guided by geopolitical rather than fiscal considerations, it is unlikely that a gridlocked House / Senate that is unable to pass some of Trump tax cuts would divert a President Trump from implementing his trade tariff policy. It is thus understandable (although somewhat surprising) that a Republican Presidency in conjunction with Democratic control of the House and Senate *could theoretically* deliver a significantly greater net-fiscal surplus than a Democratic Presidency.

Interest Rate Implication

We quantify the impact of $1Tn of additional fiscal deficit (hence Treasury supply) on long-term rates using Advocate's ad-hoc ratio of $1Tn = 20bps[4]. We recognize that investors may have divergent opinions about the appropriate supply-to-rate ratio. Using that ratio, we can calculate the marginal interest rate impact of each candidate's tax plan under various House/Senate control scenarios.

[3] While the U.S. Constitution (Article 1, Section 8) gives Congress the right to "lay and collect Taxes, Duties, Imposts and Excises", Congress has, over the course of history, ceded some of the power to negotiate tariff agreements and impose trade tariffs to the President via legislation such as the Reciprocal Trade Agreement Act of 1934 and the Trade Expansion Act of 1962. Section 232 of the Trade Expansion Act of 1962 gives the President the right to impose tariffs for national security reasons without requiring Congressional approval.

[4] Advocate ad-hoc calculation: During the Global Financial Crisis, I published analysis as a Citi research analyst that showed that $100Bn of QE corresponded to 10bps of rate movement. Since the size of the Treasury market is now 5x larger than the end of the GFC period, I updated the ratio by a factor of 5 to arrive at $1Tn-to-20bps.

FIGURE 7. IMPACT ON INTEREST RATE DUE TO HOUSE AND SENATE CONTROL IN A TRUMP AND HARRIS PRESIDENCY (BASIS POINTS)

Scenario	House	Senate	Harris Presidency	Trump Presidency
Current Expectations	DEM	REP	-24bps	-8bps
Republicans Sweep	REP	REP	-14	+60
Democrats Sweep	DEM	DEM	-34	-49
Status Quo	REP	DEM	-44	+6

Source: Advocate

In the event of a Trump win, the net interest rate impact of his tax plan will critically depend on the outcome of House and Senate elections. The impact of a Harris win is far easier to understand as all four of our congressional-control scenarios consistently point to higher fiscal surplus and lower interest rates.

Yield Curve Implication

We expect the bulk of the yield rise to be in the 10yr sector. 2yr sector is likely to be driven by both Treasury supply as well as investor expectations of future Fed action. We assign a ratio of 70%[5] for change in 2yr rate relative to 10yr rate to quantify the impact on 2s-10s Treasury yield curve.

FIGURE 8. IMPACT ON 2S-10S U.S. TREASURY YIELD CURVE DUE TO HOUSE AND SENATE CONTROL IN A TRUMP OR HARRIS PRESIDENCY (BASIS POINTS)

Scenario	House	Senate	Harris Presidency	Trump Presidency
Current Expectations	DEM	REP	-7bps	-2bps
Republicans Sweep	REP	REP	-4	+18
Democrats Sweep	DEM	DEM	-10	-15
Status Quo	REP	DEM	-13	+2

Negative 2s-10s U.S. Treasury yield curve change means a flatter yield curve. Source: Advocate

Caveats: Harris TCJA Extension and Response to the Trump Trade Tariff

There are two caveats to the analysis: the extension of TCJA for those earning under $400,000 under a President Harris, and the unknown response function of countries who face higher U.S. trade tariffs under a President Trump.

Our analysis excluded the potential cost from an extension of TCJA for those earning below $400,000 because it is not part of the Biden budget and hence not regarded as a part of the Harris Tax Plan, but the political attractiveness of this measure is obvious. If enacted, the cost of such an extension is estimated by the Tax Foundation to be as much as $2.3Tn over the next 10 years[6], or more than the total projected fiscal surplus in all Harris Presidency scenarios we considered. If enacted, the TCJA extension would likely derail expectations of fiscal surplus and lower rates.

[5] 70% ratio reflects the beta of daily change in 2yr Treasury yield versus 10yr Treasury yield since January 2000
[6] McBride, *Kamala Harris Tax Plan Ideas: Details and Analysis*

A key unknown is the response function of other countries to Trump's tariff plans. One may plausibly argue that the U.S. can care less, given that exports accounted for less than 12% of U.S. GDP in 2022 (Source: The World Bank). But if U.S. trading partners retaliate with higher tariffs on U.S. exports, U.S. exporters and retailers may end up cutting jobs and undercut the positive economic impact of trade tariffs for domestic producers.

Advocate's analysis is based on the Tax Foundation's cost analysis of each candidates' tax plan, Advocate's assessment of: a) the necessity of tax legislation to implement each element of the candidates' plans, b) the likelihood of tax plan elements being enacted, and c) fiscal deficit-to-interest rate ratios. As opinions may differ considerably on the assumptions inherent in our analysis, readers are encouraged to substitute their own assumptions.

Final Thoughts – Not As Clear-Cut As One Might Assume

Advocate's quantification (built on the work of the Tax Foundation) of the 10yr revenue impact of the two tax plans in 4 congressional-control scenarios shows that the Harris Tax Plan is likely to result in a substantial 10yr net fiscal surplus, regardless of which party controls the House and Senate. A Harris Presidency, regardless of congressional control, seems likely to produce net higher fiscal surplus (albeit as an add-on to the current projected fiscal deficit) and lower interest rates (unless she enacts the TCJA extension for those earning below $400,000).

Despite the knee-jerk reaction to short bonds if Trump should emerge as the election winner, our analysis would urge caution. The revenue and fiscal impact of a Trump Presidency may be critically dependent upon which party controls the House and the Senate. Prudent investors should await the outcome of House and Senate elections before implementing investment strategies.

Can more of either candidate's tax plan be enacted through executive order or administrative action, i.e. without resorting to tax legislation? Our conservative approach is to assume that the great majority of either candidate's tax plan requires tax legislation. We refer those interested in the potential (non-legislative) tax powers of the Presidency to the following article[7].

The quadrennial exercise in democracy is an exciting time. The two U.S. presidential candidates represent diverging perspectives on the role of the U.S. government domestically and internationally. We urge our readers who can vote to cast theirs in this very critical election.

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[7] Daniel Hemel, *The President's Power to Tax*, Coase-Sandor Working Paper Series in Law and Economics, 762 (2016), The University of Chicago, 2016.

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