



Uncertain Election

Last month's Tax Tidbits publication included a piece on dueling tax codes between President Trump and now President-Elect Biden. The assumption at the time was that whichever political party won the presidency would also win the Senate. That assumption was based on polling data from a collection of firms and now, after another election, that polling data has largely been shown to be deeply flawed once again. No "blue wave" materialized, Biden's margin of victory over President Trump was a mere 0.1% in key battleground states, the Democrats actually lost seats in the House of Representatives and will govern with one of the smallest majorities in history, and the Senate that was supposed to flip in a Biden win is unresolved.

Control of the Senate and the tax code rests on two unresolved Senate elections in Georgia. Georgia has a provision that requires that if no candidate receives at least 50% of the vote, a runoff election between the two highest vote getters must occur to determine the ultimate winner. Because of an early retirement, there are actually two seats being contested in the state and in neither November race did anyone achieve 50% of the vote due to third party candidates. January 5, 2021, Georgians will head back to the polls to vote once again to determine who controls the Senate and the ability to tax in the United States.

If the Democrats were to win both seats, it would create a 50-50 Senate and with the Vice President casting the tie breaking vote expect President-Elect Biden's tax plan to be mostly, enacted through the budget process in 2021-2022. Such a slim Democrat majority should limit the more extreme tax increases from reaching fruition.

If the Republicans win just one of the seats, it would give control of the Senate to Biden's opposition, which was one of the lowest probability outcomes, at least in the eyes of polling "experts". In this scenario, President-Elect Biden's tax plan dies in the crib, as the opposition would not allow any or only minimal tax increases.

The S&P 500 has rallied 9.81% post-election day through 12/7/2020 with prospects of divided government and no tax increases as one of the catalysts. The January 5 Georgia election holds significance to the stock market and the economy at-large. For now, we will need to watch and wait to see if the 2017 Tax Cuts and Jobs Act remains unchanged or if impending tax increases will affect the economy and equity markets.

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