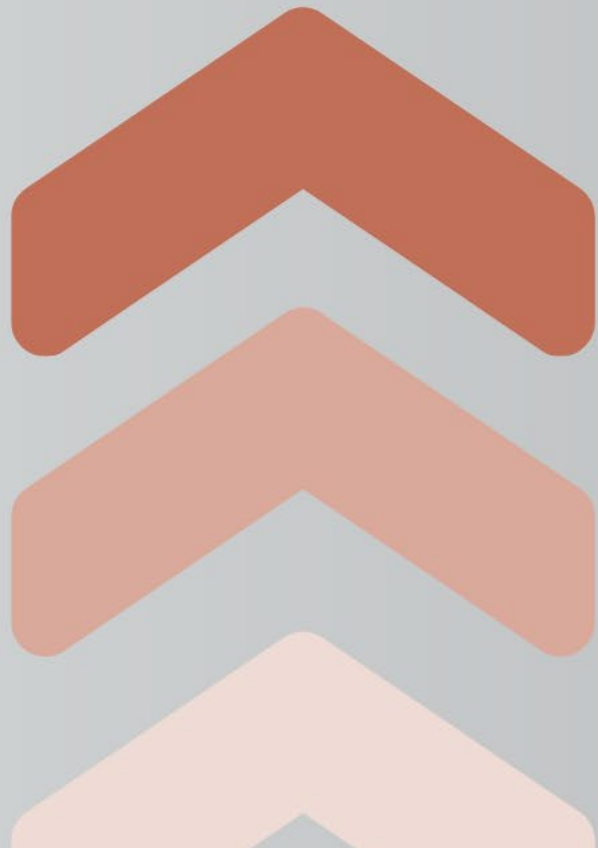


STRIVING FOR **GREATER** **SUCCESS** IN 2025



Gray, Gray & Gray's
YEAR END PLANNING SEMINAR

Thursday, December 5, 2024



Welcome



Jim DeLeo, MBA, CPA/MST
Leading Partner
Gray, Gray & Gray

Today's Agenda

- Keynote: Economic Outlook
- Panel on Strategic Planning & Innovation
- Tax Update



Keynote: Economic Outlook

Speaker



Eric Mason
Chief Financial Officer
City of Quincy

Introduction

- Economic background
 - BS & MS in applied economics from West Virginia University
 - Primary research credits in labor, energy and public economics
 - Adjunct Instructor in economics at West Virginia University
 - Executive Advisory Board Member for the University of Tulsa's Center for Energy Studies
- Professional background
 - Chief Financial Officer for the city of Quincy, Massachusetts
 - Formerly Chief Economist/Analyst for the city of Quincy, Massachusetts

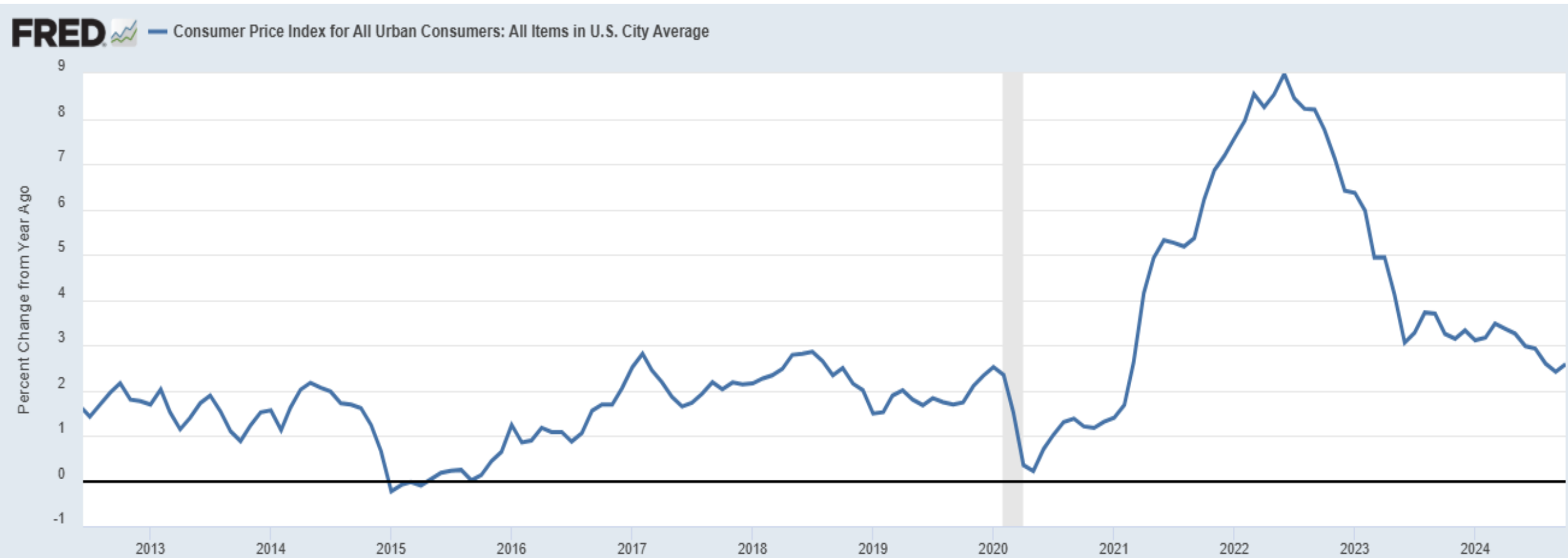
My Bias

- Austrian school perspective
 - “Man of the spot” focus
- Heavily reliant on econometrics and data
- Focus on core fundamental economic data

Outlook for 2025

- Continued inflation-reduction drivers
 - Reduced energy costs
 - Potential stability return to global agricultural bases
 - Federal Reserve Action
- Real wage growth
- Consumer confidence
- End phase for the “Great Repricing”
- Normalization of the Yield Curve

Inflation: Broad Market

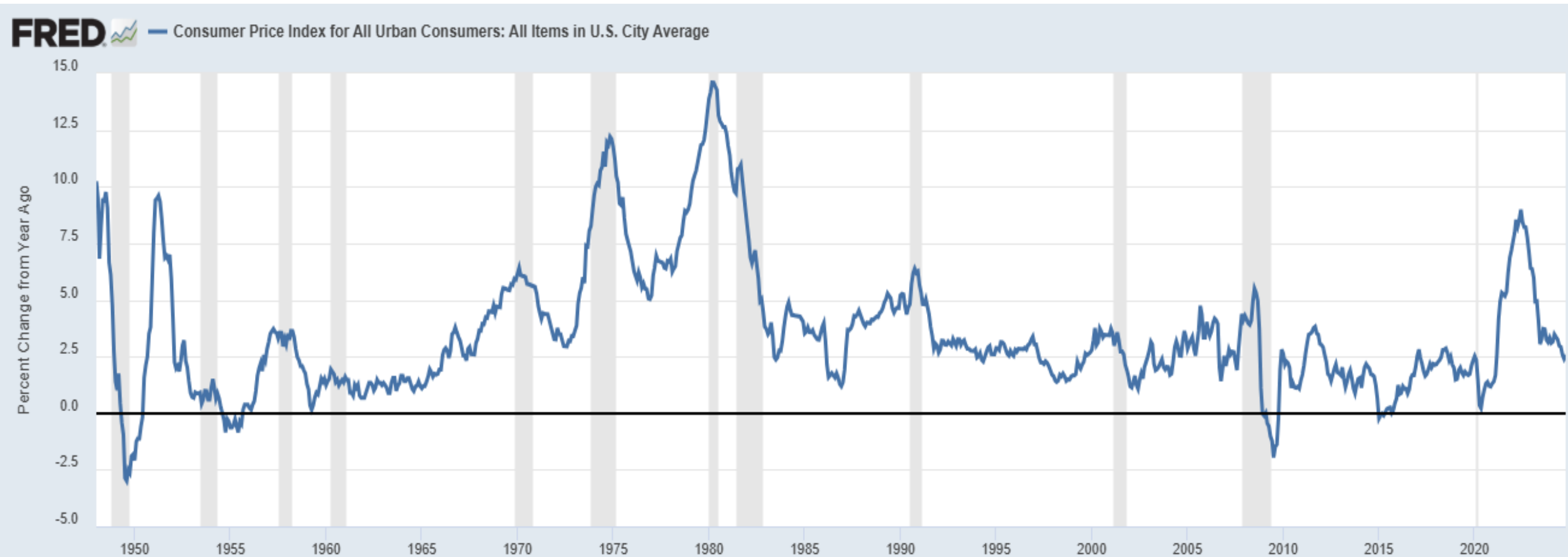


Shaded areas indicate U.S. recessions.

Source: U.S. Bureau of Labor Statistics

fred.stlouisfed.org

Inflation: Broad Market



Shaded areas indicate U.S. recessions.

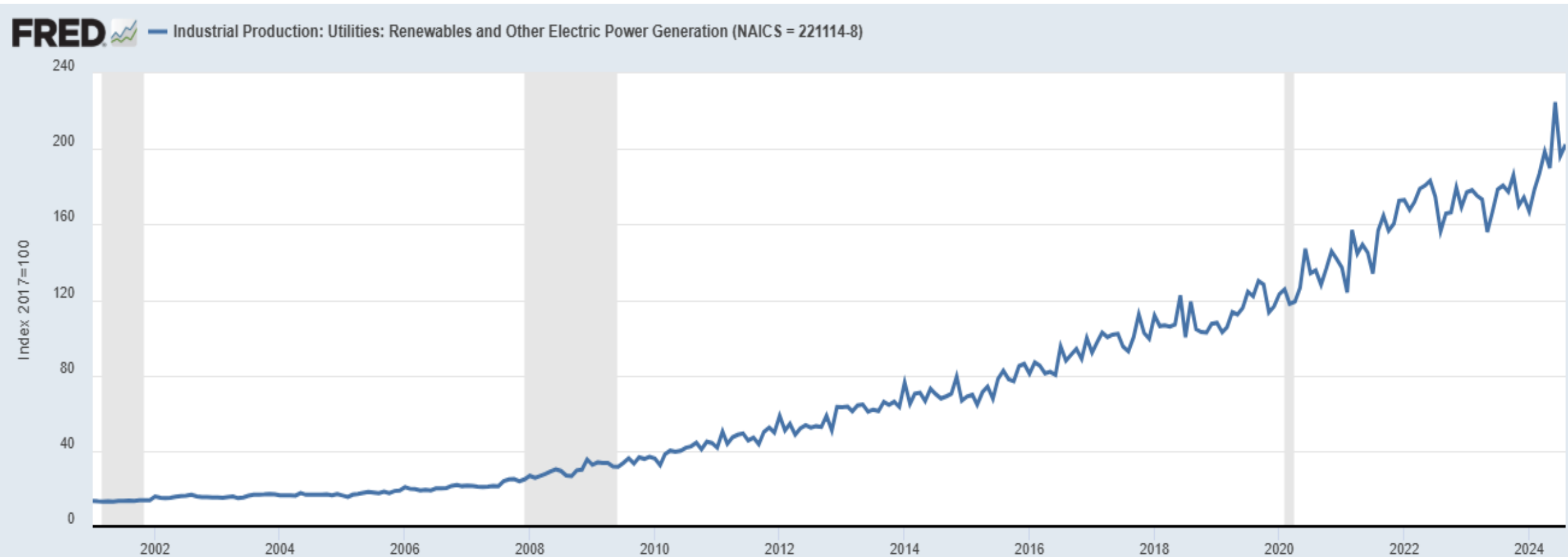
Source: U.S. Bureau of Labor Statistics

fred.stlouisfed.org

Inflation: Energy Market



Inflation: Energy Market



Shaded areas indicate U.S. recessions.

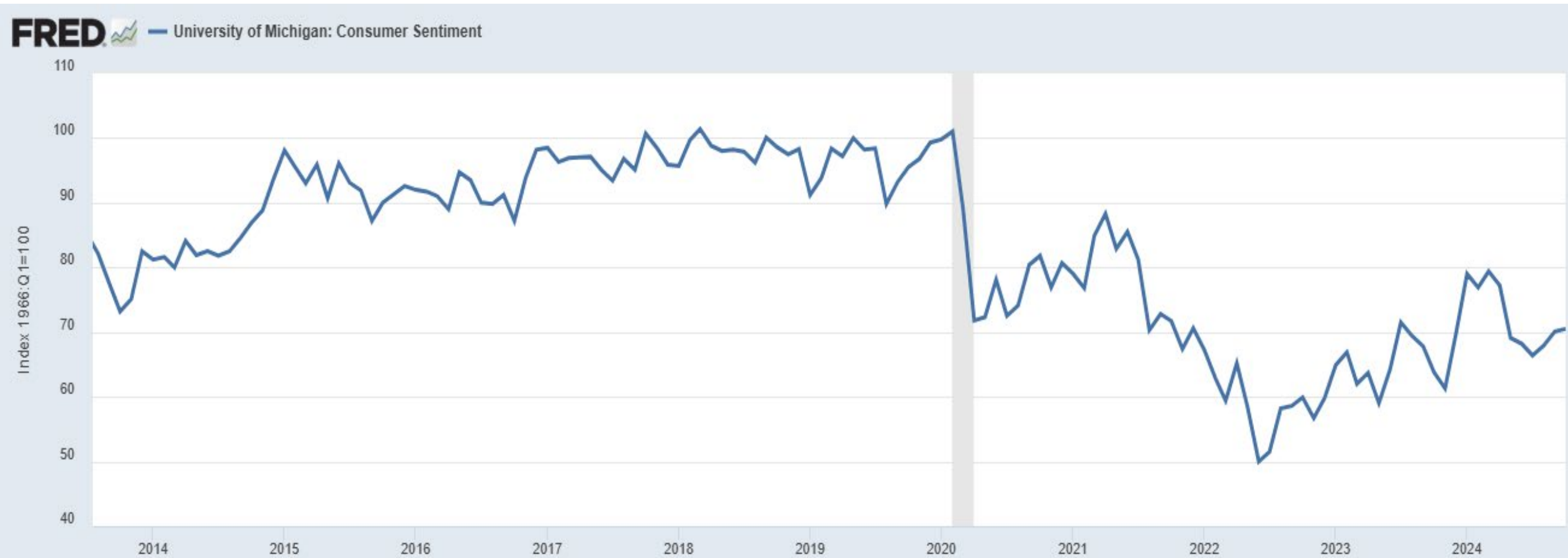
Source: Board of Governors of the Federal Reserve System (US)

fred.stlouisfed.org

Consumer Sentiment

- Improvement post-election
- Driven primarily by strong consensus of continued Trump-era tax cuts
- Considerable movement needed to rise to pre-pandemic levels
- Real wage increases and strong labor market likely to provide robust support in the short-to-medium term

Consumer Sentiment

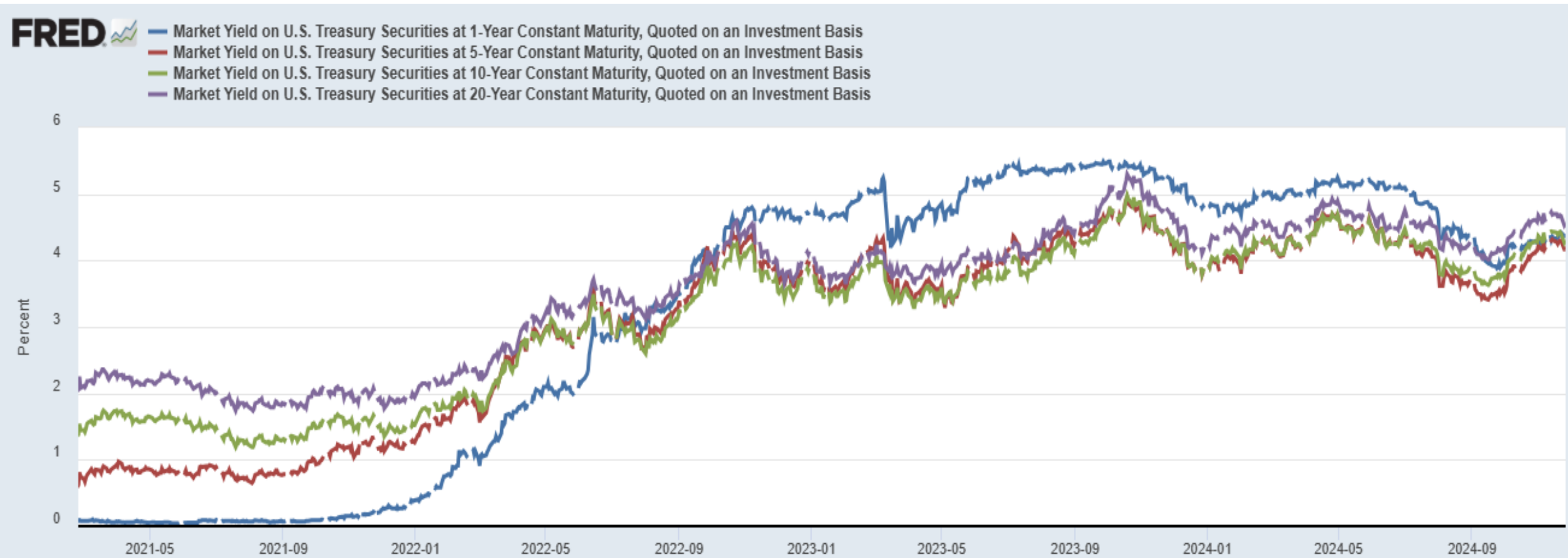


Shaded areas indicate U.S. recessions.

Source: University of Michigan

fred.stlouisfed.org

Yield Curve



Shaded areas indicate U.S. recessions.

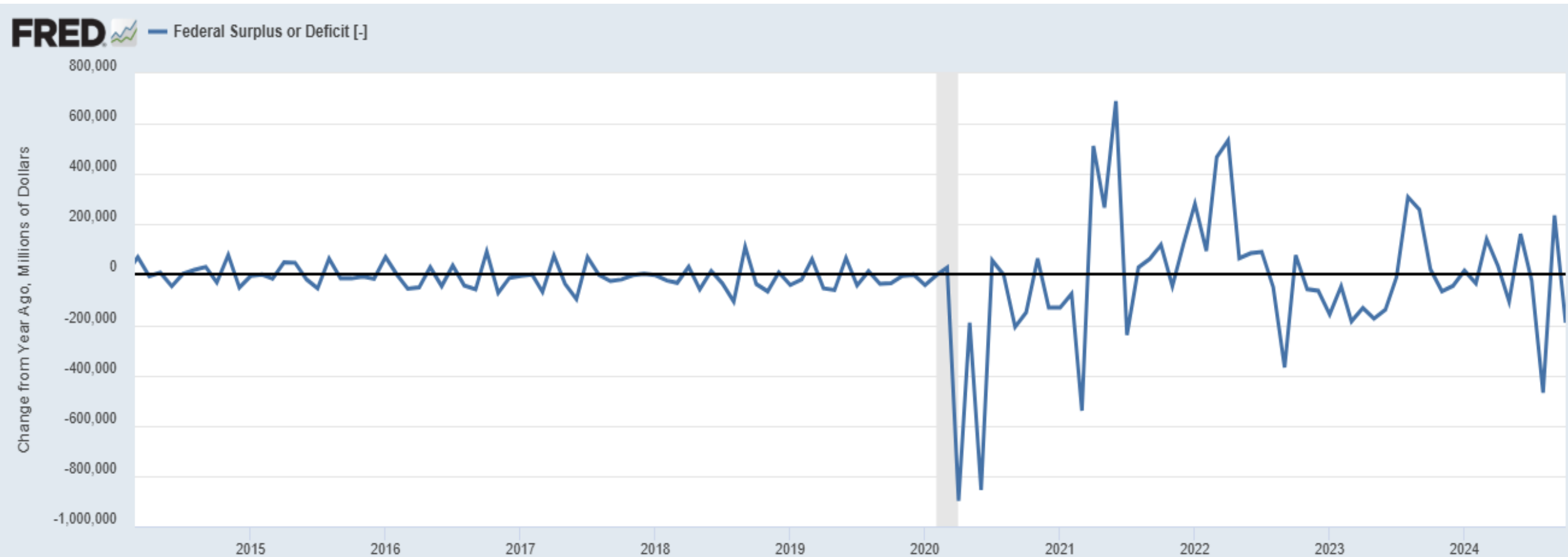
Source: Board of Governors of the Federal Reserve System (US)

fred.stlouisfed.org

Broad Tax Implications

- Small and medium size businesses will be most affected
 - Romer and Romer Series
 - 12 quarter timeframe
- Crowding out
- Crowding federal deficit
- Value of tax credits
 - Both on the “buy-side” and “sell-side”

Deficits and Crowding Out

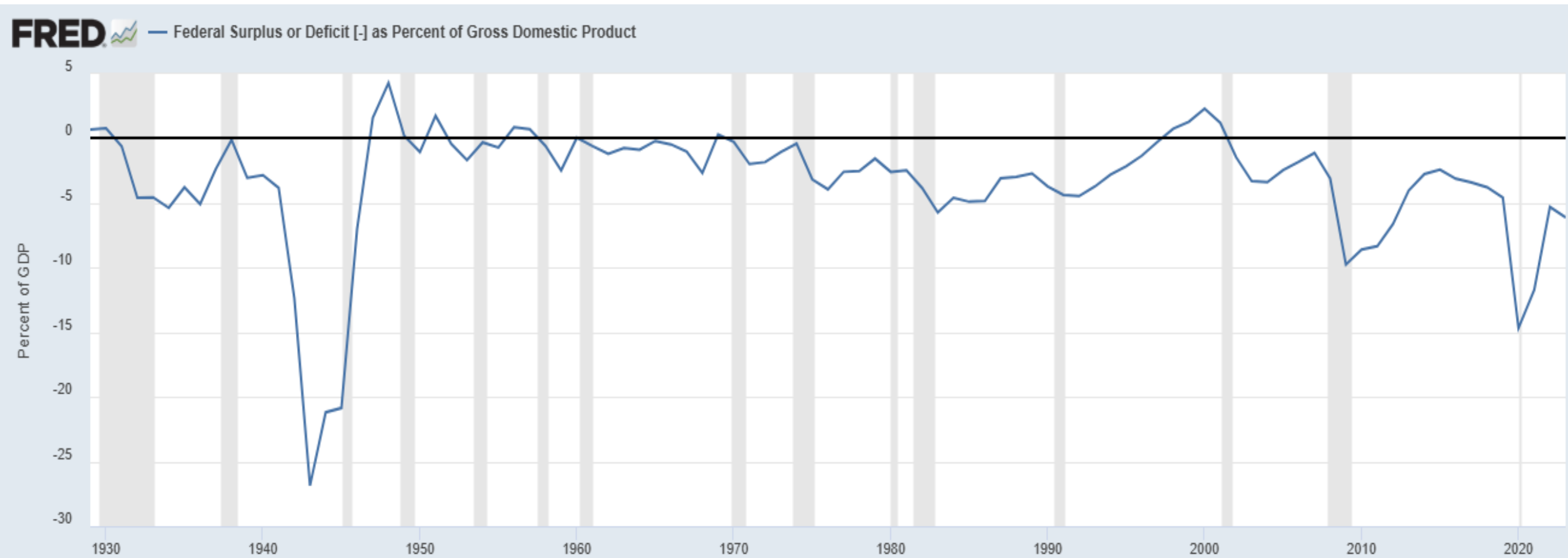


Shaded areas indicate U.S. recessions.

Source: U.S. Department of the Treasury. Fiscal Service

fred.stlouisfed.org

Deficits and Crowding Out



Shaded areas indicate U.S. recessions.

Sources: OMB; St. Louis Fed

fred.stlouisfed.org

Taxes: Trump, Tariffs, and Trade

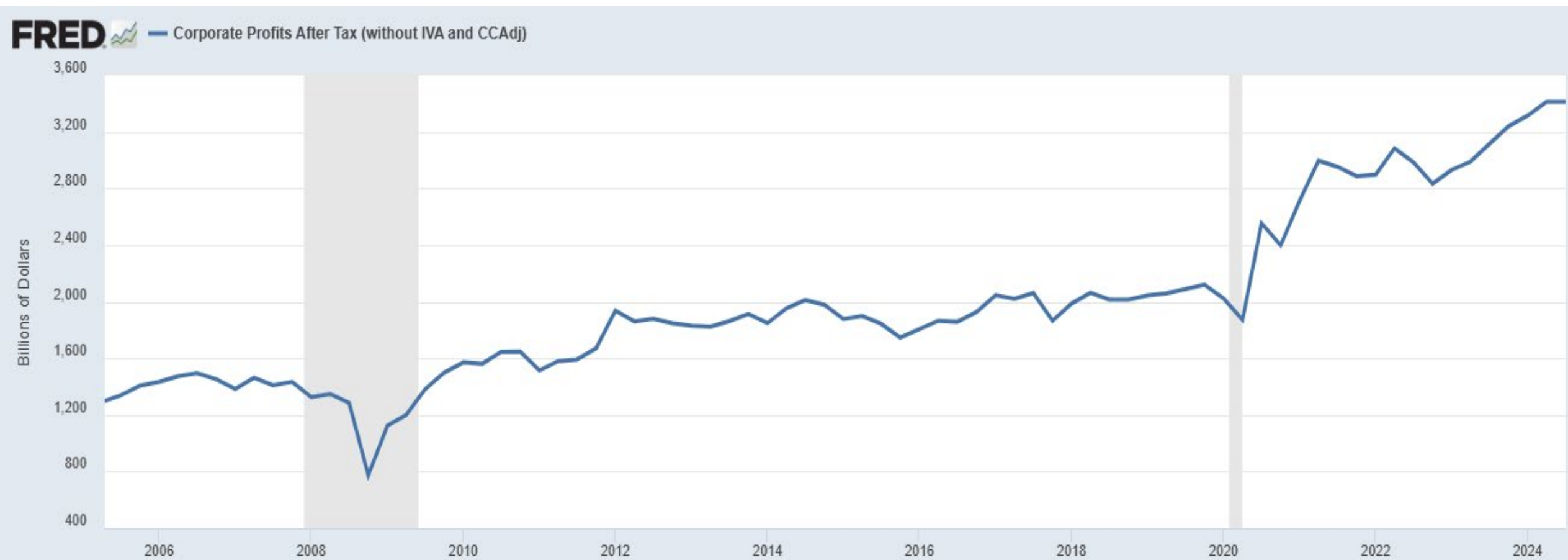
- What is the economic impact of tariffs?
- Who decides who pays a tariff?
- How will these tariffs filter through the economy?
- What does this mean for professional services?

Politics is an active but unwilling participant in economics

Taxes

- Likely to see a return to 2017 through 2021 tax policies
 - Firms are at a crucial “reaction” point
- Potential dual-band tax rate
- Broad exemptions on income tax
- Reduction in corporate taxes
- No tax on tips and social security
 - Tip taxation and tip-based workforce

Taxes



Shaded areas indicate U.S. recessions.

Source: U.S. Bureau of Economic Analysis

fred.stlouisfed.org

Taxes



Shaded areas indicate U.S. recessions.

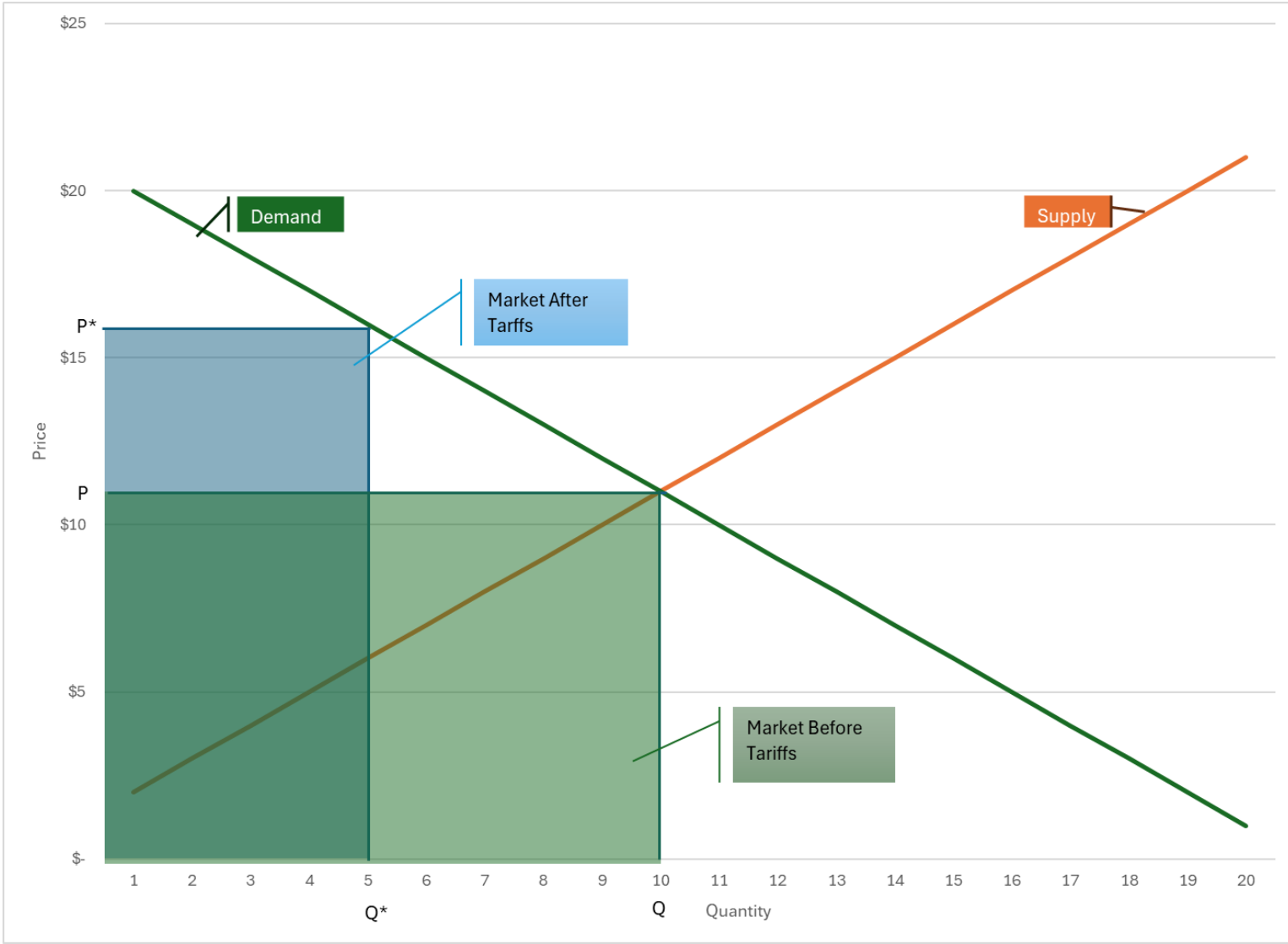
Source: U.S. Bureau of Economic Analysis

fred.stlouisfed.org

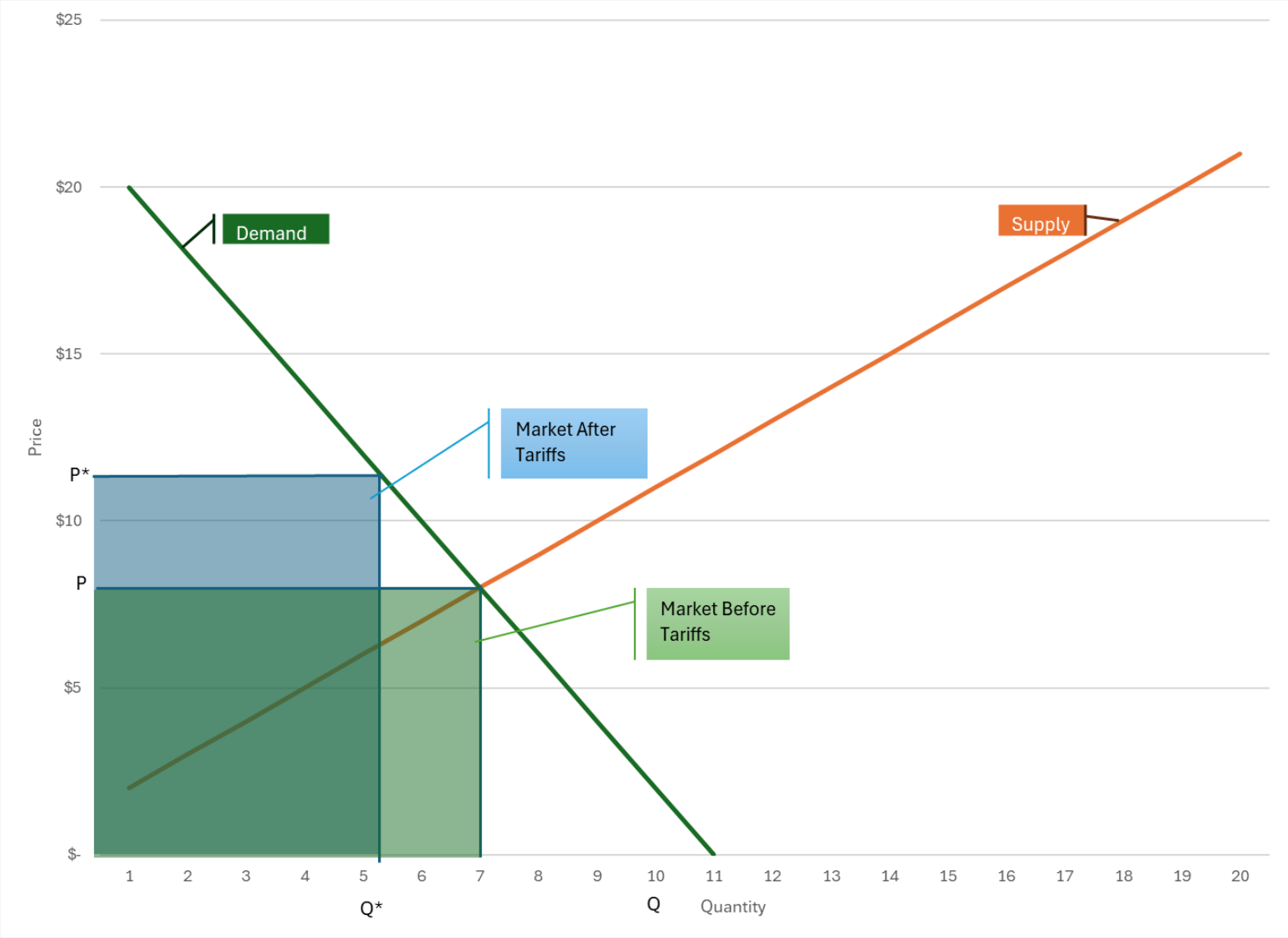
Tariffs

- Not all tariffs are the same
 - General tariffs
 - Broad and direct toward an industry or adopted across all goods
 - Punitive tariffs
 - Meant to change behavior of a nation through economic means
 - “Therapeutic” tariffs
 - Correct a market back to equilibrium
 - Counters other nations subsidizing an industry
- All tariffs come with unpredictable consequences
- There are no “producer” or “consumer” tariffs

Tariffs in Economically-Sensitive Markets



Tariffs in Economically-Insensitive Markets



Trade

- Friction with largest trading partner, Mexico
 - \$855.1 billion in trade
 - Threat to onshoring
- USMCA trade
 - Total trade between U.S., Mexico and Canada: \$1.8 trillion
- Growing influence of China in South America
- Retaliatory tariffs

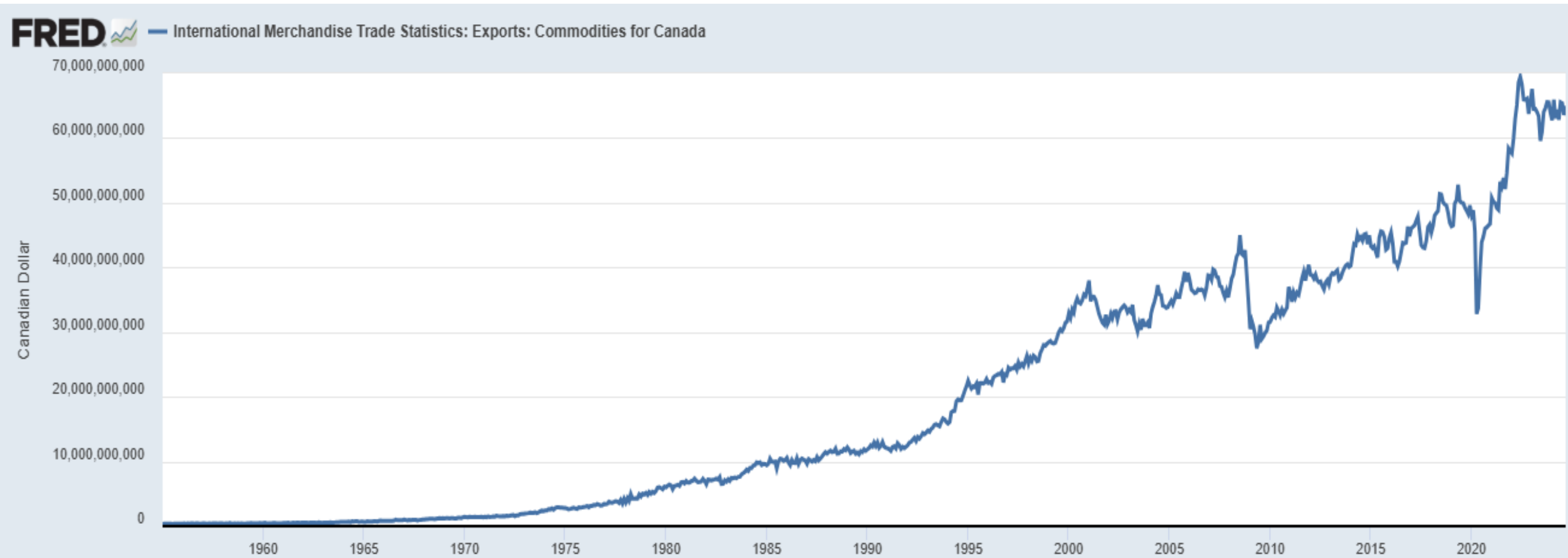
Trade



Source: Organization for Economic Co-operation and Development

fred.stlouisfed.org

Trade



Source: Organization for Economic Co-operation and Development

fred.stlouisfed.org

American Autarky

- What is “Autarky,” and can it be achieved?
- Largely impracticable
- Categorically different than tariff actions and other trade-deficit-reducing measures
- Would regress the economy and spur inflation

“Autarky has never promoted prosperity.”

— Thomas Piketty

Closing

- Continued strong broad market economic growth
 - Could be inhibited by tariffs, but too early to know the exact use of tariffs
 - Deregulation and energy sector likely to be largest drivers
- Tax mitigation is important for all firm sizes
 - Especially for small-to-medium-size firms
 - 12 quarter cycle
- Tariffs are unpredictable and policy cannot dictate who pays
- Inflation is likely to continue to stabilize
 - Highly unlikely it will hit the Federal Reserve goal of 2% in the next 4 quarters

Q&A



BREAK



Panel:
Strategic Planning &
Innovation

Moderator

Client Panelists



Bryan Pearce
Director
Gray, Gray & Gray



Jim Finn
President & CEO
Universal Window and Door



Jonathan Kasen
Managing Member
Shaker Valley Capital Partners
Co-Owner
Hilliard's Chocolates & Harbor Sweets



Bob Winneg
President
Winwood Capital Partners

Tax Update

Speakers



Brad Carlson
Partner
Gray, Gray & Gray



Derek Rawls, CPA, MST
Partner
Gray, Gray & Gray

Overview

- ✓ Trump winner of 2024 U.S. Presidential Election
- ✓ GOP takes over Senate
- ✓ Republicans have narrow margin in the House
- ✓ Boosts odds Republicans will be able to secure straight extension of their 2017 tax law

Expiring Provisions of Trump's 2017 Tax Law at End of 2025



- 199A [20% deduction for qualifying sole proprietorships, partnerships, and S-corporations]
- Standard deduction [\$30,725 to \$16,525 for married couples]
- Personal exemption [\$0 to \$5,275]
- \$10,000 cap on deduction of state and local taxes
- Other limitations on itemized deductions and elimination of Pease limitation
- Individual income tax rates [top marginal rate 37% to 39.6% higher rates through income distribution]
- Childcare credits [\$2,000 to \$1,000]
- AMT exemption phase-out levels [\$140,300 to \$110,075 for married couples]
- Estate tax exemption [drops from ~\$28.6 million to \$14.3 million for married couples]



Potential Trump Agenda

- Preserve and extend as much of the 2017 law as possible
- Lowering the corporate rate even further to 15%
- 100% bonus depreciation
- R&D expensing
- EBITDA-based interest limitation
- Decrease the corporate tax rate from 21% to 15% (reserved for companies that produce and manufacture domestically)
 - Was 35% prior to TJCA

Potential Trump Agenda *(continued)*

- Exempt tips, Social Security benefits, and overtime pay from income taxes
- Create an itemized deduction for auto loan interest
- Allow a deduction for the cost of home generators in states hit by natural disasters
- Eliminating the green energy subsidies in the Inflation Reduction Act (IRA)
- Expand qualifying tuition programs to cover homeschooling
- Eliminate double taxation for U.S. citizens overseas
- The muni tax-exemption — estimated to cost the U.S. government less than \$40 billion each year — has long been seen as a possible source of funding

SALT Cap

- Remove SALT cap or increase to \$25,000 single and \$50,000 MFJ
- FED could repeal PTEs to raise money
- Implications to 36 states and NYC with pass-through entity tax workarounds
 - 10 states rules expire if cap is repealed or expires [CA, CO, IA, IL, MA, MI, MN, OR, UT, & VA]
 - Program would continue if extend or raise cap [CO, IA, MA, MI & MN]. States without PTE: ME, PA, & VT
- What is the function of the PTET independent of the federal SALT cap?
 - Do they continue to use them as kind of an elective withholding regime?
 - Do they decide to unwind them?
 - Or, do they go the route of Connecticut and use them as a net revenue source?
- Eliminate the so-called marriage penalty
 - This means the cap would be doubled for joint filers

Limitations on Trump's Agenda

- GOP budget hawks would have to decide how many promises made on the campaign trail will be turned into law
- Democrats may aim to block extension of the 2017 tax law that benefit the wealthy—specifically tax cuts for those making more than \$400,000 a year



Budget Reconciliation Procedure

- Budget hawks
- Republicans assert they'd use the budget reconciliation procedure to push through a straight extension of the law
- This is how they passed the original law known as the Tax Cuts and Jobs Act
- Under reconciliation budget rules, lawmakers will be limited to provisions that fit within certain rules—meaning they must have a budget impact, and some will likely be temporary to adhere to guardrails on spending outside the budgetary window
- That could crowd out some priorities that can't get enough Republican support
- Again, the role of the House determines whether Republicans can move ahead on this

How Will the Tax Law Be Paid For

- Raising current Section 301 tariffs on China to as high as 60%
- Potential 25% tariffs on Mexico and Canada
- Imposing a universal tariff on all U.S. imports of 20%
- Foreign retaliation of 10% on all U.S. exports plus additional in-kind tariffs on U.S. exports to China



Q&A



Closing Remarks



Jim DeLeo, MBA, CPA/MST
Leading Partner
Gray, Gray & Gray

Contact Us



 gray
THE POWER OF MORE

Gray, Gray & Gray, LLP
150 Royall Street, Suite 102
Canton, MA 02021
www.gggllp.com
781.407.0300

