

# 2020 Elections and Their Implications for Private Business

November 10, 2020

## ➤ **Brian Reardon – S Corporation Association**

- President, S Corporation Association
- Former White House Official, National Economic Council
- Former Chief Economist, Senate Republican Policy Committee

## ➤ **Joe Lieber**

- Director of Research & Senior Political Analyst, Washington Analysis
- Policy Analyst, Senate Republican Policy Committee
- MA International Transactions, George Mason University

# What did we learn from last week's elections?

- Importance of money in politics is overrated
- Country continues to be evenly divided – WI, MI, NV, AZ, PA, NC all basically tied
- States should learn from FL how to manage mail-in balloting
- Mainstream pollsters didn't learn from 2016

# What did we learn from last week's elections?

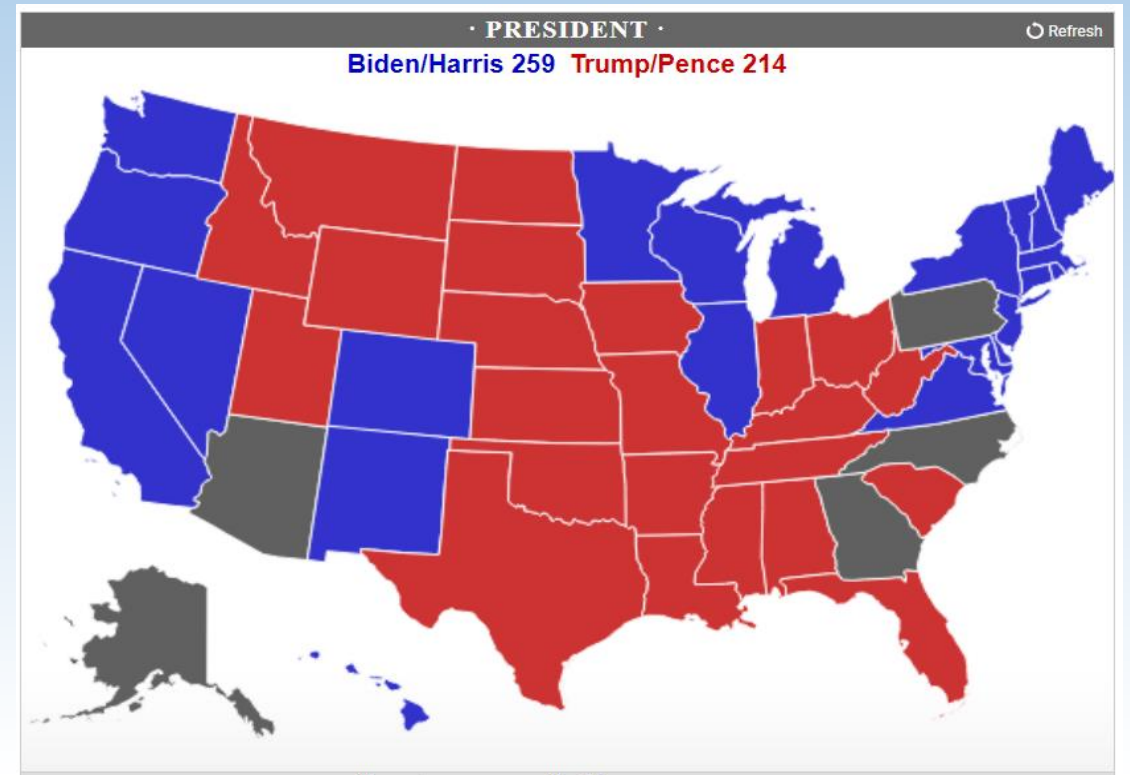
➤ Most pollsters were wrong:

STATE	BIDEN	TRUMP	RCP AVERAGE	ACTUAL	TRAFALGAR	WORST
<a href="#">Wisconsin (10)</a>	<a href="#">51</a>	<a href="#">44.3</a>	<a href="#">Biden +6.7</a>	<a href="#">Biden +0.7</a>	Biden +1	NY Times Biden +11
<a href="#">Minnesota (10)</a>	<a href="#">48</a>	<a href="#">43.7</a>	<a href="#">Biden +4.3</a>	<a href="#">Biden +7.2</a>	Biden +3	ABC/WP Biden +16
<a href="#">North Carolina</a>	<a href="#">47.6</a>	<a href="#">47.8</a>	<a href="#">Trump +0.2</a>	<a href="#">Trump +2.3</a>	Trump +2	CNBC/Change Biden +2
<a href="#">Florida (29)</a>	<a href="#">47.9</a>	<a href="#">47</a>	<a href="#">Biden +0.9</a>	<a href="#">Trump +3.4</a>	Trump +2	Quinnipiac Biden +5
<a href="#">Georgia (16)</a>	<a href="#">47.2</a>	<a href="#">48.2</a>	<a href="#">Trump +1.0</a>	<a href="#">Biden +0.2</a>	Trump +5	Quinnipiac Biden +7
<a href="#">Pennsylvania</a>	<a href="#">48.7</a>	<a href="#">47.5</a>	<a href="#">Biden +1.2</a>	<a href="#">Biden +0.6</a>	Trump +2	Monmouth Biden +7
<a href="#">Ohio (18)</a>	<a href="#">46.3</a>	<a href="#">47.3</a>	<a href="#">Trump +1.0</a>	<a href="#">Trump +8.2</a>	Trump +5	Quinnipiac Biden +4
<a href="#">Michigan (16)</a>	<a href="#">50</a>	<a href="#">45.8</a>	<a href="#">Biden +4.2</a>	<a href="#">Biden +2.7</a>	Trump +2	Trafalgar Trump +2
<a href="#">Iowa (6)</a>	<a href="#">45.6</a>	<a href="#">47.6</a>	<a href="#">Trump +2.0</a>	<a href="#">Trump +8.2</a>	NA	NY Times Biden +3
<a href="#">Arizona (11)</a>	<a href="#">47.9</a>	<a href="#">47</a>	<a href="#">Biden +0.9</a>	<a href="#">Biden +0.5</a>	Trump +3	NY Times Biden +6
<a href="#">Nevada (6)</a>	<a href="#">48.7</a>	<a href="#">46.3</a>	<a href="#">Biden +2.4</a>	<a href="#">Biden +2.6</a>	Trump +1	NY Times Biden +6
<a href="#">Texas (38)</a>	<a href="#">46.5</a>	<a href="#">47.8</a>	<a href="#">Trump +1.3</a>	<a href="#">Trump +5.8</a>	Trump +6	Quinnipiac Biden Tied

# Election Results – Presidential

	Arizona	Georgia	North Carolina	Pennsylvania
Trump (217)	49.0	49.3	50.1	49.8
Biden (259)	49.5	49.5	48.7	49.1
Percent Count	97%	99%	97%	97%
Electoral Votes	11	16	15	20

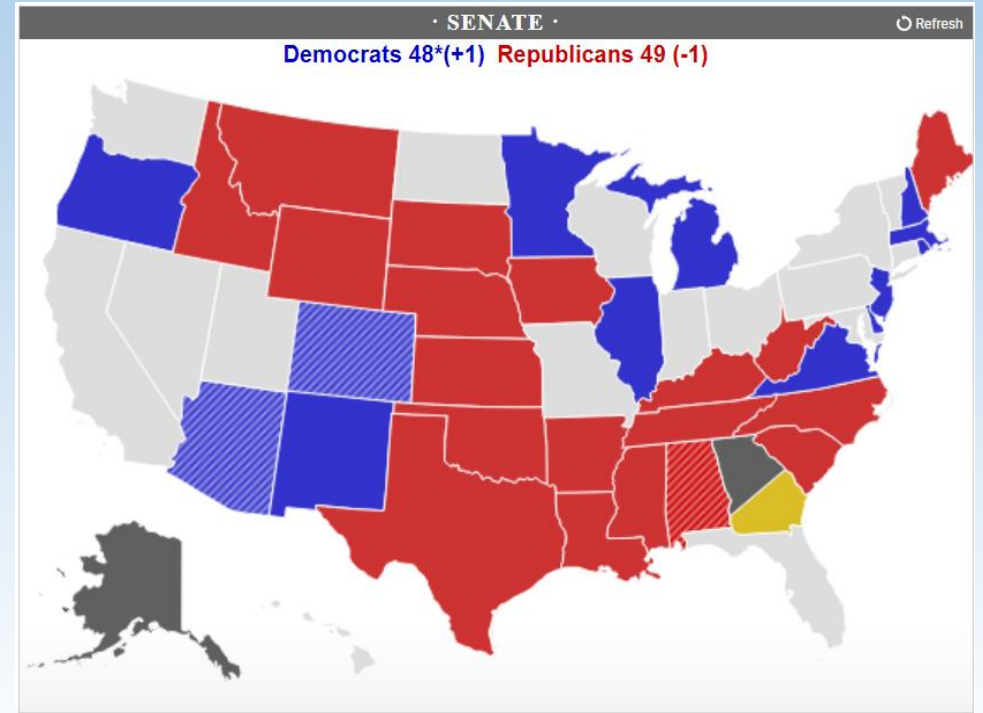
- One week after the elections, and we still don't have official results in five states...
- Assuming Trump wins Alaska, Biden just needs to win one of the remaining states to pull it out



# Election Results – Senate

	Montana	Arizona	North Carolina	Maine	Iowa	Michigan	Pick-Ups	Remaining
Republican (50)	55.0	48.7	48.7	51.1	51.8	48.3	AL	GA1, GA2
Democrat (48)	45.0	51.3	47.0	42.2	45.2	49.8	CO, AZ	

- In the Senate, Republicans had a very good election
- Assuming Sullivan wins in Alaska, they have 50 votes and are favored to win both run-offs in GA



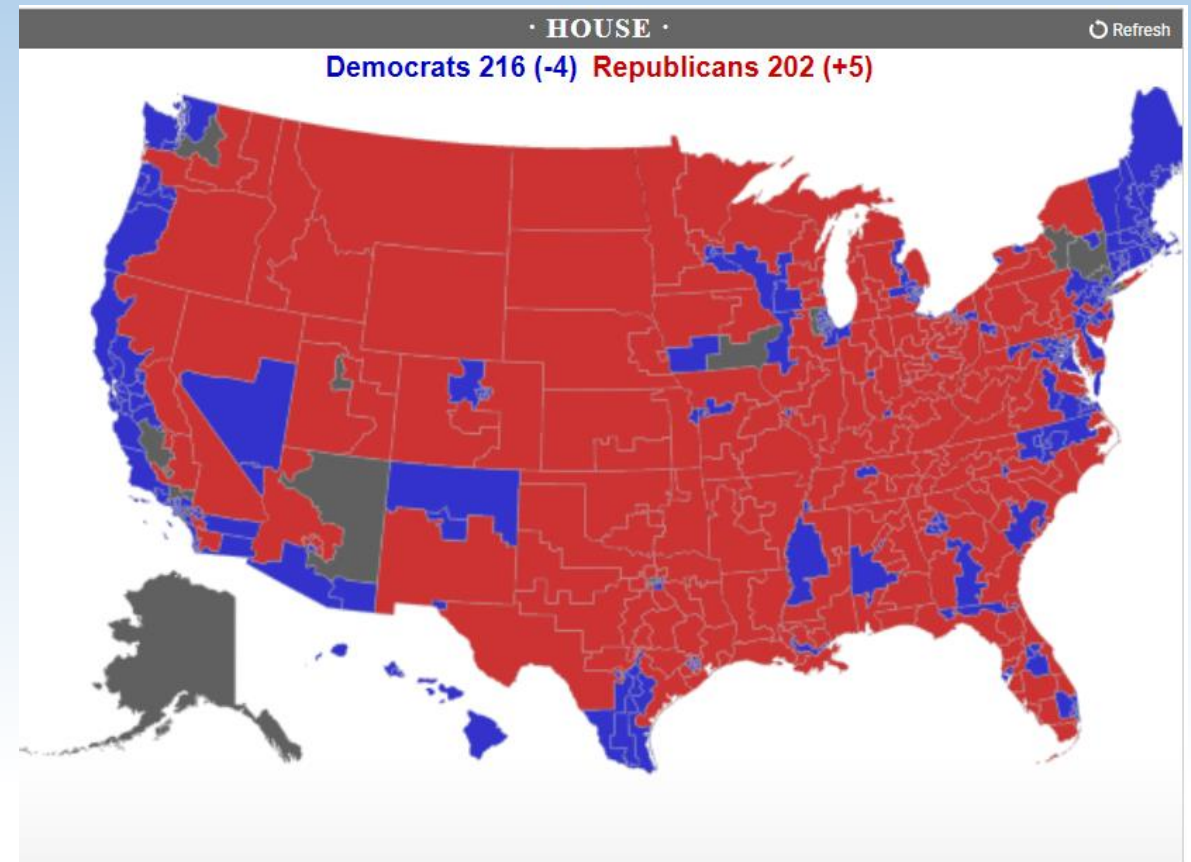
# Election Results – Georgia

- Two run-off races taking place January 5, 2021
  - Democrat Jon Ossoff v. Georgia Sen. David Perdue
  - Democrat Raphael Warnock v. Sen. Kelly Loeffler
- Two races will cost \$100m+
- In three previous GA run-offs since 1992, voter turnout was down and Republicans increased their winning margin
- Republicans favored in each race this time, but it's going to be very close...

	Republicans	Democrats	Right Leaning Independents	Left Leaning Independents	Total	Percent
Perdue Seat	2,456,322	2,366,163	114,575	--	Perdue +204,734	4.1%
Loeffler Seat	2,420,082	2,370,141	66,517	43,064	Loeffler +73394	1.5%

# Election Results – House

- Democrat's started with a small 232-197 majority
- Its now 216-202 with 15 races yet to be called
  - R's ahead in AK-1, CA-21, CA-25, CA-39, NY-2, NY-3, NY-11, NY-22, TX-24, UT-4
  - D's ahead in 6 AZ-1, IL-14, IA-2, LA-5, NY-18, NY-19, WA-8
- Bottom Line: Speaker Pelosi should keep her job, but with a much smaller majority



# Election Results – Base Case

- Biden is President
- Republicans retain Senate with 51/52 votes
- Democrats retain House with a very small majority
- We estimate there's 85-90 certainty for this outcome
- What does that mean?



# Election Results – Lame Duck

- Lame Ducks tend to be Lame
  - Hard to get folks to come back
  - Not a lot of time and lots of moving parts
- On the other hand, with Trump's departure, maybe there's room for a deal?
- Must Pass:
  1. Federal spending so we don't have a government shutdown – expires December 11<sup>th</sup>
  2. That's it – just the spending bill
- COVID relief? Lots of interest but lots of obstacles as well
  - Who negotiates for the Republicans, McConnell or Mnuchin?
  - Maybe 50/50 smaller COVID package gets done?

# Election Results – New Congress

- What's off the table:
  - Biden's \$4 trillion tax hike
  - Wyden's M2M Plan
  - Ending the Filibuster, packing the court, etc.
- What's on the table – Compromise
  - Key seats held by negotiators – Richie Neal and Mike Crapo lead tax writing committees, Joe Biden and Mitch McConnell have a long history of working together
  - Smaller majority means House Progressive Caucus is less influential

# Election Results – Biden Tax Plan

- Remember this table from our call on the Biden Plan?
- Expect some tax policy next year, but those 60 percent marginal rates are off the table

Top Marginal Rates					
Current Law & Biden Plan					
	Wages	S-Corp Income	Capital Gains/ Dividends	Corporate Income	Combined Corporate/ Dividends
<u>Current Law</u>					
Below \$400,000	35.3%	25.6%	23.8%	21.0%	39.8%
Above \$400,000	40.3%	29.6% - 40.8%	23.8%	21.0%	39.8%
<u>Biden Plan</u>					
Below \$400,000	35.3%	25.6%	23.8%	28.0%	45.1%
Above \$400,000	54.1%	44.6%	25.0%	28.0%	46.0%
Above \$1 Million	54.1%	44.6%	44.6%	28.0%	60.1%

# Election Results – Tax Policy in New Congress?

- McConnell is Leader (85-90%)
  - No major tax hikes through 2022
  - Tax bills should move, but marginal policies developed in a bipartisan manner
- Schumer is Leader (10-15%)
  - House and Senate have very small majorities – 50-50 Senate
  - Most moderate Democrat will define any plan moving through Senate
- Expect Biden Lite:
  - Sharp rate hikes and changes to estate taxes are likely off the table
  - Process will have to go through budget & reconciliation and will take longer
    - Social Security tax hikes are off the table

# Election Results – Look for Increased Regulatory Action

- With divided government, expect regulations to take center stage
  - Progressives in Democratic Party will likely look towards executive action to achieve results they can't get through the House
- Key areas:
  - Labor
    - CA and IC
    - Union organizing and regs
  - Energy
    - Fracking
    - Carbon regulation
  - Tax
    - 2704 regs

# Election Results – Conclusion

- Base case now is Biden Presidency, McConnell Senate and Pelosi House
  - McConnell and Pelosi will have to manage very small majorities
- This result depends almost entirely on the GA run-off elections, which won't take place until January 5<sup>th</sup>
- Assuming Base Case:
  - Big, headline policies are not on the table, including large tax hikes, ending the filibuster, packing the court,
  - Compromise should make a come-back – key actors in all three bodies have a long history of getting along
  - Any headline grabbing policies are likely to come from the Agencies, not the Congress
- Questions?

# 2020 Elections and Their Implications for Private Business

November 10, 2020

## ➤ **Brian Reardon – S Corporation Association**

- President, S Corporation Association
- Former White House Official, National Economic Council
- Former Chief Economist, Senate Republican Policy Committee

## ➤ **Joe Lieber**

- Director of Research & Senior Political Analyst, Washington Analysis
- Policy Analyst, Senate Republican Policy Committee
- MA International Transactions, George Mason University