

DIVIDENDCAFE | PODCAST TRANSCRIPTION

FRIDAY, JULY 10, 2025

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Hello and welcome to this week's Dividend Cafe where I get to once again delve into the territory that gets my inbox the most activity. I don't mean that in a positive or exciting way. I am going to talk today about the One Big Beautiful Bill Act, which is literally the name of the bill and this sort of omnibus tax and spending bill that has now been signed into law.

We're sending this out on Friday, July 11th, that was signed into law one week ago, Friday, July 4th. But it's been a topic that's been discussed for quite some time, and I want today to talk about the investment ramifications, the market ramifications, what we like about the bill, what we don't like about the bill, what myths are out there that are inaccurate about what the bill is doing.

There's a couple myths that I think are negative interpretations of the bill that I wanna debunk. There's one myth that's a positive interpretation of the bill that I also want to debunk, but I think just by generally walking through our overall assessment of this significant piece of legislation and doing so objectively and with a very sincere and genuine curiosity and inquiry about what it means economically, it will dilute a lot of the political heat around the discussion.

What I won't do, and I said this back with a lot of my pre-election coverage and certainly a lot of my post-election market commentary, I won't do this by pretending that I am a politically neutral actor.

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I don't believe anyone reading this is politically neutral or watching or listening. I don't believe that person who has put these thoughts together, me should pretend to be neutral. Either I have a point of view, the problem with that, and if you've been a reader or listener of Dividend Cafe for a long time and you're tired of me saying this, I apologize, but I have to continue making this point.

The reason that these things have to be said so much is because we are in a moment where there's a high expectation to wear a uniform to get in line around a side, and that side may be very favorable to the Trump administration or that side may be very opposed to it. And the same thing would be true when we were in the Biden administration in the Trump 1.0 administration.

I noticed a lot of this very high tribalism during the Obama administration. I suspect this is going to outlast the Trump 2.0 administration as well, where the notion that somebody like myself would be a political conservative that I've been my whole life and more or less generally find myself aligned with more often than not republican voting concerns and yet be critical.

Certain things that may come about from a policy standpoint. The economic agenda here around this particular president and at the same time also have things that I'm not critical of, that I'm supportive of. This is the worst thing an investor could do is decide they need to pull themselves one way or the other.

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If your natural ideological inclinations are to have points of view that sometimes you believe it's a ball, and other times you believe it's a strike. I would not resist that in your portfolio. I actually wouldn't resist it outside your portfolio either. I think there's something very liberating about believing what you believe and saying what you believe and not feeling the need to align it with a particular uniform.

But that's not what people come to Dividend Cafe for my own commentary on our cultural divides. The hyperpolarization of the moment is what it is, and I get Mayo reflecting it, and I fully expect to get a lot of it after today. And look I don't say it arrogantly or to be overly flippant, but it doesn't bother me.

I don't care that much. It some of it's very predictable, but I provided to be a little funny in Dividend Cafe today at the written Dividend Cafe, there's one of two letters you could pick from if you wanna just cut and paste and send it. And the point being that these are two totally polar opposite letters, like I can't possibly be just constantly hating on Trump, as some people say, and at the same time constantly carrying water for Trump, as others say.

But I get those sentiments all the time, and they obviously are contradictory from one another. My point is you could, I love getting feedback from people. We get a lot of questions that we interact with in the Dividend Cafe daily blurb. But this is what it is. Okay. My points of view could be wrong. There's certain elements that are subjective in terms of one's opinion about political philosophy or economic worldview. I don't expect everyone to agree with all my personal opinions, but my point is that where I'm expressing various frustrations

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with this bill and various commendations of the bill, that's not contradictory.

It's only contradict if you're looking to force somebody into one team all the time. And I don't accept those rules of engagement. So with that long intro, let's get into what we're here for.

I would encourage you to think about this bill, even though there's so many granular and detailed things at play, I would encourage you to think of the bill as five major categories. The reason why it really got done as an omnibus bill and as opposed to trying to break it up as a series of a lot of different legislative efforts is that there was a broad agenda. There were certain components in that agenda that would be less politically saleable if they were disconnected from other political points.

And so the bill sought out to do five things. And I think if some of them were standalone, they would not have gotten the votes. But by connecting 'em to other things it was able to rally just enough people in the Senate and house to, to make it become law. First was of course the extension of the prior tax cuts, the tax cuts in jobs act.

The TCGA 2017 had a number of provisions in it that were sunseting. And I should say right off the bat that's one of the big problems right now is that we continue to have to pass things that we intend to be permanent, but do it with sun setting provisions, assuming that the future legislative body would be unwilling to sunset various things because that would be unpopular to do.

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So that assumption is accurate all the time. And this is a bipartisan thing. It's been done with Democrat and Republican administrations, but the reason it's done is because getting legislation done with 60 Senate votes that are filibuster proof is very difficult. Bipartisanship is dead. And so the years when Reagan and Tip O'Neill worked together, and when Bill Clinton and Newt Gingrich worked together to get legislation done, and nobody thought a bill was perfect, but everybody had enough in it to get it across the finish line, that doesn't happen anymore.

So to get budgetary oriented bills, fiscally oriented bills done, they are able to do such with only 50 Senate votes. Through something called the Byrd amendment that allows it to be done filibuster proof if it is attached to a budget window and reconciled as part of a budget action. So if you open a budget for a certain deficit, impact, pass that. Then you can pass legislation that is consistent with that budget window and not have to go to the 60 vote burden, but to pass legislation that sometimes does the things you want it to do and stick within this budget window that is part of the reconciliation requirement. Then one of the games that gets played is passing tax cuts that expire in five years, or in this case three years as we're about to see with this new bill.

And in the case of the TCGA from 2017 we're sunset away nine years later. At the end of the day, you know what, it actually would've been 10 years 'cause it was retroactive in 2017. So through 2025, no, it may have been eight or nine actually. I, that's funny. I'm forgetting that exact detail, but the point being, it happened with the Bush tax cuts as well, that they were sunseting for the same reason. So I'm on a

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tangent right now, but I think this is an important part of the point I wanna make. The sun setting provisions from prior legislation is what creates some of the challenges in the new legislation.

So number one component was extension of the prior tax cuts. There is a chart at Dividend Cafe that shows what the rates were over the last several years and what they're gonna continue to be, but what they would've been had it not passed, if we were going back, if we were sunsetting back to the pre 2017 Tax bill, what those rates were. And so you have that chart there at Dividend Cafe. So extension of tax cuts was a big deal, had no action been taken. The net tax impact would've been a tax increase for 62% of American tax filers. So there was a lot on the line, and my estimate is that number equaled something in the range of \$2 trillion.

So extension of the tax cuts was agenda number one. Agenda number two, campaign tax cut changes. These were not part of the 2017 bill. New things such as No tax on tips, no tax on overtime, no tax on social security. And then what kind of got added after the election, but has become a talking point for the president since was this a tax break for auto purchase for the deduction of interest on auto purchase.

So these were political tax cuts that were not related to 2017, but were needed to be part of this bill for the president's own agenda. Number three would be pro-growth business tax changes. And again, I'm gonna walk through what some of those details were, but there was at least some nod to a supply side agenda in the tax bill, and that was almost entirely covered under the business side of the equation.

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Number four, were spending cuts. Now there were also some spending increases in allocations, but overall to have a budget impact of some of the tax cuts you were gonna have to get to a point of, spending reductions to stay within an approved budget window. And in order to make that happen, there were adjustments to the rate of growth of Medicaid to student loan provisions, to renewable energy deductions.

And so the reductions of planned increases. Really equals something in the range of \$150 billion a year. So we spend 6.8 trillion a year. This is one and a half trillion of reduced growth of spending over 10 years, not a meaningful amount. And the number five was the increase of the debt ceiling is to get all this done.

They needed more leeway and Congress gets tired of having to have this fight all the time. It's a complete charade. They always end up extending. If anybody ever wanted to not exchange increase the debt limit, all they have to do is not continue to spend in the way that is increasing the debt. But they can't. So the debt limit sits as a sort of fake governor. The Congress doesn't like it, Senate doesn't like it, the president doesn't like it. They raised it by 5 trillion to give them a little higher bandwidth going forward. So those are the five categories of what the bill was looking to do. Let me start off with the debunking of some of the myths.

First and foremost, no matter how political this sounds, I'm just simply doing math for you. It is untrue that this bill primarily extends tax cuts for the wealthy. Okay. The marginal the top marginal rate in the old pre 2017 was 39.6, and this brings the top marginal rate to 37 where it's

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been, but you have to remember that the salt deduction went away, or it was limited to \$10,000 in the 2017 bill.

And the SALT deduction is largely used at the biggest impact for the wealthiest of taxpayers that have the biggest houses, most expensive houses, highest property taxes. They had unlimited deductibility on that before, and if they were in a state of high state taxes, they were, because they earn a lot, had a huge deduction against their federal taxes, and that has now gone away.

Now the new bill is bringing it back up to 40,000, but no one gets it after 500,000 of income. So it's a very small number of people are gonna benefit from that increase. And even then, it's nowhere near the amount of the deduction that was previously available to the wealthiest of taxpayers. But here's the thing, you can do the math on the percentage difference of when it went from 39.6% top rate to 37, a 15% rate, which is the second, the lowest tax bracket had been it went to 12. Okay, so that's a 20.5% difference going from 12 to 15, the 3% difference the next rate, 22 to 25, 24 to 28. So the biggest percentage difference is on the second, third, and fourth lowest tax brackets, and then there was no change at all for the six tax bracket, 35 to 35%, a minimal change at the fifth, from 32 to 30, from 33 to 32.

My point being that the percentage move where the largest amount of savings were on the line in these tax cuts was for lower income. And middle class taxpayers, and on the lowest of income tax filer, the standard deduction had doubled and it was gonna go all the way back. So it'd been increased from \$8,350 to 15,000 for single filers. 16,700 deduction went to 30,000, almost 31,000 for joint filers. And then now

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with this new bill, they even added an additional thousand dollars on top for single and 2000 married. But my point is that standard deduction is clearly something that primarily impacts lower income filers. Whether you like it or not, whether you think it's a good idea or not whether you would've liked to split the baby and extended the tax cuts only for lower income or middle class, but not for higher, that's all fine.

I'm just saying mathematically it is untrue. I know firsthand that my taxes went up dramatically. Under the 2017 Trump tax bill because of the loss of the assault deduction. And I'm totally unaffected by the assault deduction changes now. So there, that's true of a lot of people. And again, it doesn't necessarily change what people like or don't like about the bill, but I bring it up to debunk the myth Now.

Myth number two, and this is gonna upset a lot of my friends on the Right, including friends of mine in the administration that are saying something very different. But this narrative that the CBO is underestimating what the growth will be, this isn't gonna really add 3 trillion to the national debt because at the end of the day we're gonna get more growth.

They always underestimate growth and so we're gonna do better than that, and then therefore the impact will be less. Where they're wrong is that I first of all, they're correct that historically the CBOs projections Congressional Budget Office have underestimated what growth impact there will be from tax cuts.

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That's been true of the last four tax cuts that CBO had to score, that their dynamic scoring did not fully capture the level of growth that would be created after the fact. In this case though, we're primarily talking about status quo, not pro-growth, new tax cuts, but just simply extending tax cuts that are already in play.

No, it is untrue that you get additional stimulus from weaving tax rates the same. It's true you could have hurt growth if you didn't extend those taxes. If you had a big tax increase that could have hurt growth. But that's not what some of the folks are saying. Others are saying, including Kevin Hassett said at the National Economic Council, that we're gonna get higher growth because of extending the tax cuts, and I don't think that makes a lot of sense. But I also would point out that just as much as CBO often is underestimated growth impact, they've underestimated the growth of spending too. First of all, these projections don't account for if we have a recession, they don't account for.

The fact that some of these programs are supposed to sunset and are not gonna end up sunsetting or at least have a very high political chance to not sunsetting, meaning the spending will be higher than what the current spending bill says. So the te full 10 year scoring of this, if it were done realistically, it would be closer to 5 trillion, not 3 trillion, let alone closer to zero, which is what some in the White House would want you to believe.

Myth number three, by the way, is, and I'll, I'm gonna try to go quickly here 'cause it's a little bit toxic of an issue, but there are many who are saying this bill is just slashing medical coverage, slashing what we're

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spending on medical care. So I put a chart in Dividend Café, showing how what it is doing is getting the rate of growth back in line to what the original projection had been from CBO five years ago, so that now 10 years out, it meets at the same place it was.

As opposed to this higher elevated level that took off post COVID. So yes, it is raining in some of that growth of spending with a CA, the Affordable Care Act and Medicaid, but not reducing the actual spending reigning in the rate of growth of spending that was elevated post COVID. So there's about a trillion dollars over 10 years of spending increases that have been curtailed.

There is still net spending increases in Medicaid, and so people could like that, not like it. It's looking to address what portion the states pay, and it's certainly looking to limit. Ineligible enrollees from participating in Medicaid. It added some other work or community requirements. It seeks to avoid illegal immigrants from receiving Medicaid but the narrative that's out there.

Is inaccurate as a matter of fact and the charts and the data are provided at DividendCafe.com to show it. So what is the growth ramification of the bill? Let me just say first of all, objectively that no tax on tips, no tax on overtime auto loan interest, those are not pro-growth things.

You could like 'em or not like 'em. But they're not supply side. They're not incentivizing production of goods and services. They're not broad based benefits, which is what supply siders traditionally like, and that

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includes myself. Subjectively I do think they're all terrible policies, but that has to do with my belief about the tax code being equitable.

I don't believe that a bartender should have a more favorable tax policy than a busboy. I don't believe that a factory line worker who works overtime versus another blue collar worker who doesn't have an overtime structure, that they, that there should be gamesmanship or arbitrage or inequity in how those things are taxed.

I think ultimately, these types of lines of work that there, there ought not to be be more favorable tax situation for one than the other when they make the same amount of money in the end. I don't I think it's largely a political issue and that has always, been something that people like myself have not been very comfortable with.

Many on the right were really critical of the Biden administration, student loan forgiveness, viewing it as a politically targeted objective. And I would say that, president Trump always said the no tax on tips thing, it was gonna have to be a big priority. And he did end up winning the state of Nevada.

He always was hitting this point in Clark County where there's a lot of service workers that live off of tips. I'm all for reducing taxes where it's the right thing to do broad based, if we wanna bring down everybody's marginal rates together. But I think that when you are having the government pick winners and losers and say you, you are in a position in a restaurant that doesn't get tips and you're in a position, a restaurant that does get tips and you're both gonna earn the same money, but you're gonna have different tax treatment.

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I just think it's bad policy, but I will say this, it isn't a big fiscal impact and it's also not a growth impact. So like it or don't like it, the way they did it is there's a deduction. For tip income up to 25,000. So it's a way, a workaround where it effectively makes up to \$25,000 of tips non-taxable.

But it goes away at the end of President Trump's term. This is only through 2028, similar with overtime up to \$12,500 overtime. Wages are deductible. That's how they got around that. Okay. Now on the social security side. Blah, blah, blah. Let me find the specific number. \$6,000. So I always said it was, there was no way they were gonna make Social Security non-taxable just because the fiscal impact was so big.

But they did a little workaround and there's income thresholds, but they essentially are giving a bonus standard deduction on top of the regular standard deduction. You get another \$6,000 standard deduction if you're over 65 and under certain income thresholds. So it's a way of giving, anywhere from 1000 to \$2,000 back to senior tax filers.

Again, obviously not pro-growth in any way whatsoever. People can like the policy or dislike the policy, but we cannot call those elements. Pro-growth. The auto loan issue, now this one, I just as a matter of policy, find outrageous. I do not believe that we should be encouraging people to take more debt.

I do not believe that we should discriminate against those who decide to buy a car in cash or buy a used car as opposed to those who decide to finance a new car. I don't think that giving tax treatment to one who

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made a particular consumer choice versus another. Makes a lot of sense. I also think it just gets priced into the price of the car, which is of course a point many on the right made.

When Vice President Harris was proposing the government subsidizing a down payment on a home for first time home buyers, I shared in the argument that would just simply get priced in to what the home cost. I think that this auto loan deduction is guilty of the same thing and not pro-growth.

Now they're not, none of those things cost a ton. They do cost some, they're not free. And I disagree with them but, it, my critique is not really fiscal, it's more growth oriented. What I would say here, I'm gonna quickly go through four things that I think are very favorable pro growth in terms of being supply side.

There's a 20% small business tax break that was provided. After the 2017 tax bill because the corporation tax rate went from 35% to 21%. And so they needed some way to make it fair for LLCs and S-Corps. So they gave a 20% tax edition for pass through entities that was gonna expire the end of the year.

They extended that, made it permanent. I think that is pro-growth. They take out certain sectors with it, including financial services, I should add. But I would rather see it be broad based across all pass through entities. But my point is that where this tax issue existed for.

What is a vital part of the economy? LLCs, partnerships and Subchapter s corps they made that permanent. I think that's pro-growth one. The

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section 179 deduction full deduction of equipment and capital investment is extremely pro-growth. Likewise, bonus depreciation for putting proper, productive property, let's call it factories and whatnot.

New factory construction. Getting that bonus depreciation is very supply side. A permanent deduction now for research and development in the United States is also pro-growth. So I would say at the end of the day there are individual tax rate extensions that I like a lot but do not believe they're pro-growth, but they are necessary.

There are, but as far as the growth side of it I think it's on the business side and I do not think the campaign tax cuts are pro-growth. But I think the business side has an impact and I'm not sure the market is fully appreciated, how beneficial that will be for capital investment in public equity, but private equity as well.

Alright. The things that I do not like about the bill are primarily focused on what it doesn't do. There are some things that the bill does do I don't like. I'm not a believer in the salt deduction, even though losing the salt deduction had a huge fiscal impact on me, I simply philosophically don't agree that two people should be paying drastically different federal taxes when they make the same amount of money based on the size of their home or the state that they live in. But all that to say the salt thing that they did is very muddled and really benefits almost nobody and is bad policy to begin with. But what I basically am most concerned about with the bill is what it doesn't do, which is address the fiscal health of the country.

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We are right now, government spending is running almost 24% of GDP. We've been somewhere between 18 and 20% pre COVID for a long time. That's the number I think we need to be at. The budget deficit is a percentage of GDP should be in line with GDP growth. Roughly about 3%. We're running five, six, 7% and are projected to continue doing so.

As far as the eyes can see. That's what bothers me about the bill and I basically believe it needed to do more to reduce our deficit burden. I've already said what I like the most is basically entirely on the business side. I certainly appreciate avoiding a recessionary tax increase on the individual side, but what I like the most is on the business side.

Now, this leaves some people dissatisfied. Why not just come out and hammer the bill? Very candidly, I'm never ever gonna be in Congress, so I don't have to say what I would've done if I'm in a, if I were in Congress, but I would not have voted for the bill. Because of the fact that I really believe, as much as there's a lot in the bill, I like, I think we have to accelerate the point at which we take the national debt seriously.

I do not believe that we are being honest when we say let's just tax rich people more that would do anything about the debt. I do not believe we're being honest. If we say, let's go cut a wasteful government program, we're gonna do something about the national debt. If we're gonna do one big, beautiful bill, I think we have to tackle spending with far more sobriety and judiciousness than this bill does.

So that's what my criticism is, but I think that the main event, a pro-growth business and extension of the individual tax code cuts was the

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right thing to do. But there are plenty of other things in the bill that I find to be problematic. So is this a market mover? Of course not. We've now seen throughout the last several months it didn't have any impact in markets at all.

The tariff issue, trade issue, cap ai, CapEx, earning season, there's all sorts of things that are gonna move markets and ultimately this bill long term has impact to the fiscal state of the country. And there's always ability to pass new legislation that makes things better, or new legislation that makes things worse, but tethering one's market view.

To what they like or don't like about the president or their market view to what they like or don't like about a bill is absurd. It has never panned out. And I could tell you three different legislative endeavors in the Obama administration that I found contemptible that were not good bills and have had a lasting negative impact.

And most of those were done when the stock market was at around 8,000. DOW it's now at 45,000. So it just isn't true that bills you like and don't like move markets up when you like 'em or down when you don't. Now, that's totally different than saying that we can afford to never address the fiscal health of the country.

This bill has a chance to do it and it didn't. There's good things in the bill, bad things in the bill, and they're all the data points and charts. Go to DividendCafe.com to capture more of it, but if that is a dissatisfying conclusion, I will tell you this, it's because this is a dissatisfying state in the process, but that is where we are now, and we will be putting out a

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piece, by the way, at The Bahnsen Group with more detail on the tax ramifications.

There's a lot of nuances individually we want to get to for clients. I'm trying to do a high level summary for you here today. Let me leave it there in the Dividend Cafe. I appreciate as always, those of you watching, listening or reading. I certainly appreciate those of you that forward it around.

We are always welcoming new readers and viewers and listeners, and I welcome your questions, despite my sarcasm about the hate mail that I get because generally there's a lot of very thoughtful questions. I love interacting with it. Have a wonderful weekend. Thank you so much for being a part of the Dividend Cafe.