

December 12, 2024

## **(GEO, CXW) DC Quick Takes: Cap Gains/Dividend Taxes, Reconciliation and Ukraine**

We don't see the top long-term 20% capital gains tax or the 20% dividend tax rate coming down in the tax bill next year, despite President-elect Trump mentioning this policy goal in response to a question this morning at the NYSE.

It's hard to see the rates falling much lower than 20%. We doubt any potential tax proposal would have them being reduced to 0% or 10% for the highest-income bracket, and a political fight to bring them down to 15% seems unlikely and unproductive for the GOP.

However, we think the odds would improve, though still not above 50/50, if the cost of extending the tax bill is less of a concern to congressional Republicans. Recall that internally, Republicans are debating whether to use current *policy*, rather than the current *law*, in their baseline to determine how much of the tax bill needs to be offset.

If Republicans opt for current *policy*, they will assume that the 2017 Tax Cuts and Jobs Act (TCJA) does *not* expire at the end of next year but instead continues indefinitely. This assumption means — the bond market notwithstanding — that Republicans would *not* need to offset the ~\$4.6 trillion in costs to extend the TCJA as they would under a current law budget baseline. While using current policy, instead of law, provides a potential easy out for the GOP, such an idea is likely to be a tough sell given the deficit impacts

We expect capital gains and dividend taxes to remain part of the debate well into tax-bill discussions. We note that in the event Republicans did use current policy in their baseline, additional tax cuts for capital gains and dividends potentially easier to offset but are still unlikely.

### **One vs. Two Reconciliation Bills**

We are moving our odds to 65% that Congress moves two reconciliation bills next year, despite many House Republicans opposed to such a strategy. Recall that some GOP leaders want to quickly pass a reconciliation bill that would: 1) provide more funds to implement Trump's immigration policy, which would likely be positive for private prison stocks **Geo Group** (GEO) and **CoreCivic Inc.** (CXW); 2) potentially add funds for **defense**; and 3) some **energy** provisions.

**Joe Lieber**

202-964-7473

[joe.lieber@capitolpolicypartners.com](mailto:joe.lieber@capitolpolicypartners.com)

#### **Geo Group Inc (GEO)**

**Price:** \$28.18

**52-Week High:** \$29.86

**52-Week Low:** \$9.96

#### **CoreCivic Inc (CXW)**

**Price:** \$21.95

**52-Week High:** \$24.99

**52-Week Low:** \$10.74

There have been few details about the substance of this first reconciliation bill. However, Trump is unlikely to secure the funding to implement his immigration policy, which some have estimated could cost as much as \$300 billion, until Q3 or Q4 *unless* an early non-tax reconciliation bill is passed early next year.

On the defense front, recall that yesterday the House passed the National Defense Authorization Act (NDAA), which provides \$884 billion for FY25 for defense. Many Republicans and some Democrats were upset that the additional \$25 billion included in the Senate's NDAA wasn't adopted. There have been reports that this first reconciliation bill could incorporate this additional \$25 billion, which would also have the benefit of strengthening GOP's hand in negotiating the rest of the FY25 spending levels.

With regard to **energy** policy, ideas like permitting reform are unlikely to be allowed in reconciliation, but we think opening up ANWR and other federal land to oil and gas drilling is permitted under budget reconciliation rules.

It is unclear if Republicans will try to help pay for the overall bill by eliminating some of IRA's **green energy tax cuts**, but we suspect those offsets would be on the table.

## **Ukraine**

President-elect Trump's recent comments about Ukraine fit in with our view that the president is likely to get tougher with Russia as a lead up to expected negotiations on trying to end the war.

We wouldn't be surprised to see Trump call for additional aid to Ukraine as a threat to Russian to come to the bargaining table.

Ukraine will very likely have to give up territory in any negotiated settlement and NATO membership is unlikely, though some type of Ukrainian territorial integrity is likely to be guaranteed.

Finally, we'd expect this to play out longer than might be anticipated, with negotiations probably not concluding until at least 2026, assuming both parties agree.

## DISCLOSURES AND DISCLAIMERS

### **Analyst Certification**

The analyst, Capitol Policy Partners, primarily responsible for the preparation of this research report attests to the following: (1) that the views and opinions rendered in this research report reflect his or her personal views about the subject companies or issuers; and (2) that no part of the research analyst's compensation was, is, or will be directly related to the specific recommendations or views in this research report.

### **Analyst Certifications and Independence of Research.**

Each of the Capitol Policy Partners analysts whose names appear on the front page of this report hereby certify that all the views expressed in this Report accurately reflect our personal views about any and all of the subject securities or issuers and that no part of our compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views of in this Report. Capitol Policy Partners (the "Company") is an independent equity research provider. The Company is not a member of the FINRA or the SIPC and is not a registered broker dealer or investment adviser. Capitol Policy Partners has no other regulated or unregulated business activities which conflict with its provision of independent research.

### **Limitation Of Research And Information.**

This Report has been prepared for distribution to only qualified institutional or professional clients of Capitol Policy Partners. The contents of this Report represent the views, opinions, and analyses of its authors. The information contained herein does not constitute financial, legal, tax or any other advice. All third-party data presented herein were obtained from publicly available sources which are believed to be reliable; however, the Company makes no warranty, express or implied, concerning the accuracy or completeness of such information. In no event shall the Company be responsible or liable for the correctness of, or update to, any such material or for any damage or lost opportunities resulting from use of this data. Nothing contained in this Report or any distribution by the Company should be construed as any offer to sell, or any solicitation of an offer to buy, any security or investment. Any research or other material received should not be construed as individualized investment advice. Investment decisions should be made as part of an overall portfolio strategy and you should consult with a professional financial advisor, legal and tax advisor prior to making any investment decision. Capitol Policy Partners shall not be liable for any direct or indirect, incidental or consequential loss or damage (including loss of profits, revenue or goodwill) arising from any investment decisions based on information or research obtained from Capitol Policy Partners.

### **Reproduction And Distribution Strictly Prohibited.**

No user of this Report may reproduce, modify, copy, distribute, sell, resell, transmit, transfer, license, assign or publish the Report itself or any information contained therein. Notwithstanding the foregoing, clients with access to working models are permitted to alter or modify the information contained therein, provided that it is solely for such client's own use. This Report is not intended to be available or distributed for any purpose that would be deemed unlawful or otherwise prohibited by any local, state, national or international laws or regulations or would otherwise subject the Company to registration or regulation of any kind within such jurisdiction.

### **Copyrights, Trademarks, Intellectual Property.**

Capitol Policy Partners, and any logos or marks included in this Report are proprietary materials. The use of such terms and logos and marks without the express written consent of Capitol Policy Partners is strictly prohibited. The copyright in the pages or in the screens of the Report, and in the information and material therein, is proprietary material owned by Capitol Policy Partners unless otherwise indicated. The unauthorized use of any material on this Report may violate numerous statutes, regulations and laws, including, but not limited to, copyright, trademark, trade secret or patent laws.