

## 2025 Tax Reform: A Primer

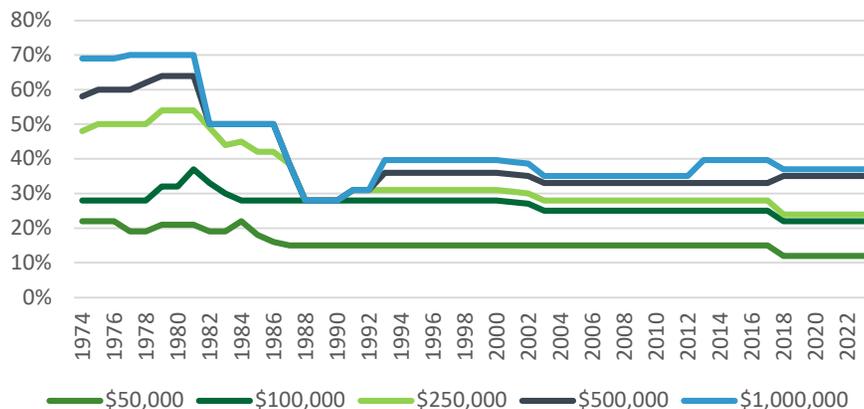
It is often said that change is the only constant, and this is certainly true in financial markets. If last year revolved mostly around the shift in Federal Reserve policy changes, the new year is likely to revolve around changes in US tax policy. There are two reasons for this expectation: 1) the incoming Trump administration made both domestic taxes and foreign tariffs a centerpiece of their campaign; and 2) current tax rates on many parts of the US tax code are scheduled to expire at the end of 2025 if no action is taken. While we cannot predict what these changes, if any, will look like, we can predict that tax policy is likely to be a major theme for financial markets in 2025. In anticipation of these changes and the national debate that will likely ensue, let us review current tax rates and how they compare historically.

The largest source of tax revenue for the federal government is from individual income taxes. The income tax has long used “brackets” that ensure the highest earners pay the highest tax rates. The exact income levels and tax rates set in these brackets have an enormous impact on total government revenue, societal wealth disparity, and overall economic growth. The below chart shows the marginal tax rate paid at varying levels of income over the past 50 years.

As the chart demonstrates, tax rates for middle- and lower-income taxpayers have enjoyed a continual downward trajectory over the past 50 years, and earners at \$250,000 or less are currently enjoying all-time low rates. The highest earners saw their taxes plummet during the Reagan years, but their rates have been largely stagnant since. While rates are likely to remain low in the near-term, it is important to note that current tax rates are historically low. One of the most important planning decisions most people make is whether to defer taxes on retirement savings (via pre-tax retirement plans), making the long-term historical context very important for planning purposes.

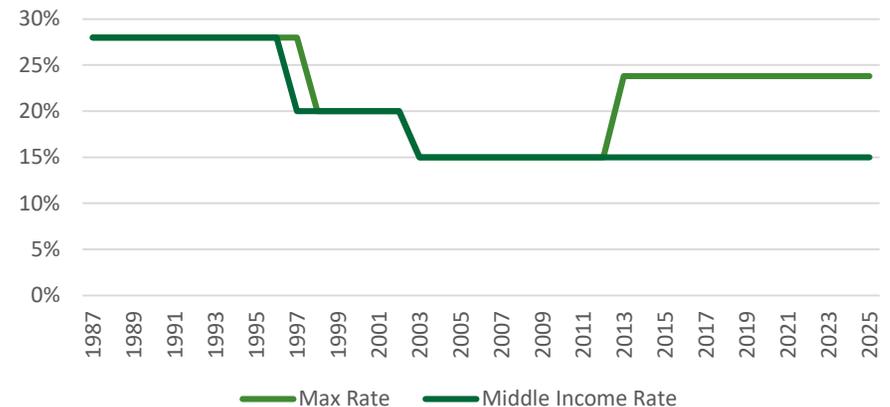
The next tax up for conversation this year is long-term capital gains. As a refresher, these are the rates paid on investment gains once the investment is realized (sold), as long as the investment was held for at least one year. These brackets are separate from income tax brackets and typically have much lower rates to encourage individuals to invest their savings.

**Income Tax Rates**



Source: Tax Foundation; Income Levels are Inflation-Adjusted

**Long-Term Capital Gains Rates**



Source: Tax Foundation

Today, only taxpayers with incomes over \$584,000 are paying capital gains taxes at the max rate of 23.8%, a generally more normal rate, while all other taxpayers have been enjoying historically low rates for the past 20 years.

The corporate tax rate is also set to expire after 2025 and is likely to be hotly debated both on Wall Street and on Capital Hill. Corporate taxes are typically only assessed on larger companies (with more than 100 shareholders) and is often referred to as “double taxation”, because the profits are taxed at the corporate level, and then taxed again at the individual level once they are paid out to shareholders in the form of dividends or distributions. Let’s look at corporate tax rates over recent decades.

### Corporate Tax Rate

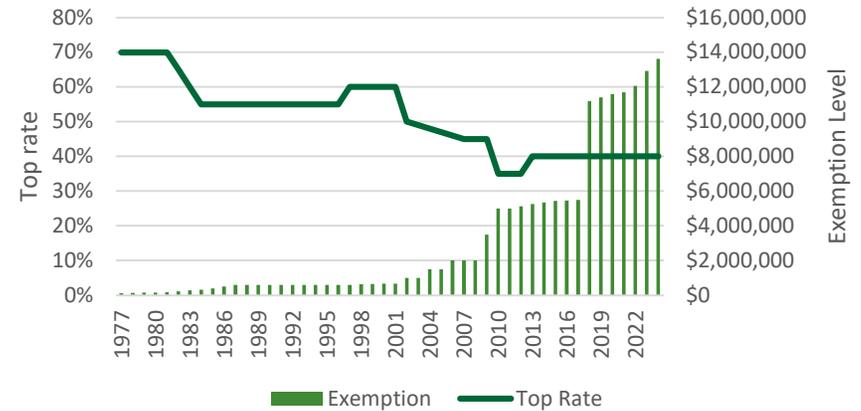


Source: Tax Foundation

As the chart illustrates, current corporate tax rates are extremely low by historical standards. Furthermore, this is another area of the tax code where a complex series of deductions and credits can significantly alter a company’s taxable income, typically to the benefit of the corporation.

The last major tax on the debate table in 2025 is the estate tax, which is based on the total value of a taxpayer’s assets minus liabilities on the date of their death. While estate tax rates are typically high, they are only assessed on values over a certain threshold (estate exclusion), meaning most taxpayers do not pay any estate taxes. The following chart shows both the rate paid, as well as the amount excluded from taxation, in recent decades.

### Estate Tax Rate & Exemption Level



Source: Evans Estate Law Resources

As shown above, not only has the estate tax rate decreased over recent decades, but the amount excluded from taxation has increased exponentially. In addition to being historically low, there is a prevailing belief that estate tax policy is a significant contributor to the wealth gap, which has also increased significantly during the above time period.

If Congress does nothing, each of these four tax rates will expire at the end of 2025, reverting back to higher pre-2017 levels. Preventing this outcome is one of the new administration’s top priorities, but with little agreement on what changes should be made. While we don’t anticipate rates increasing in the near term, for planning purposes it is important that we take the long view. In the case of tax policy, that means recognizing that current tax rates are at or near historically low levels across the board, and future decades could see rates revert back to more historically normal, and therefore higher, levels.

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