



## **Tax Legislation and IRS Inflation Adjustments**

December 2024

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### **Tax Legislation**

With recent Republican victories in the U.S. presidential, Senate, and House races, significant tax policy changes are expected in 2025, particularly regarding provisions of the Tax Cuts and Jobs Act of 2017 (TCJA), many of which are scheduled to expire on December 31, 2025. While Republican control of both the House and Senate provides a pathway for legislative action, tax changes will require either 60 Senate votes or passage through the budget reconciliation process. The reconciliation process allows budget-focused legislation to pass with a simple majority but imposes limits on measures that increase deficits.

Key tax policies under consideration include making TCJA provisions permanent, addressing individual income tax rates (set to revert to a top rate of 39.6% after 2025), and extending the Qualified Business Income (QBI) deduction under Section 199A as well as the expanded estate tax exemption. There also has been some discussion about potentially restoring the state and local tax (SALT) deduction without the current \$10,000 cap.

### **Inflation Adjustments**

In October, the IRS released inflation-adjusted figures for different components of the Internal Revenue Code. These adjustments apply to tax brackets, phaseouts, contribution limits and various other items for 2025. This memorandum highlights many of these items as we draw closer to the 2025 tax year.

Considering the interest rate cuts in 2024, reduced inflation, and ongoing market volatility, strategic tax planning remains critical for individuals aiming to optimize cash flow and minimize tax liabilities in 2025. It is essential to stay informed about tax law changes implemented during the transition from 2024 to 2025 and assess their potential impact on your financial and taxable situation. Proactive evaluation and adjustments can help ensure that your financial strategies align with the evolving tax landscape.

### **Standard Deductions & Key Tax Rates**

The 2025 standard deduction for single taxpayers that do not itemize is now \$15,000. Married couples filing joint returns that do not itemize will have a standard deduction of \$30,000 in 2025. For itemizers, state and local tax (SALT) deductions continue to remain capped at \$10,000.

The tables on the next page reflect applicable ordinary income, long and short-term capital gains, qualifying dividends and net investment income tax brackets for 2025 compared to 2024.

2024 Federal Income Tax Brackets					
Single	Married Filing Jointly	Married Filing Separate	Head of Household	Estates & Trusts	Marginal Rate
Up to \$11,600	Up to \$23,200	Up to \$11,600	Up to \$16,550	Up to \$3,100	10%
\$11,601 to \$47,150	\$23,201 to \$94,300	\$11,601 to \$47,150	\$16,551 to \$63,100	NA	12%
\$47,151 to \$100,525	\$94,301 to \$201,050	\$47,151 to \$100,525	\$63,101 to \$100,500	NA	22%
\$100,526 to \$191,950	\$201,051 to \$383,900	\$100,526 to \$191,950	\$100,501 to \$191,950	\$3,101 to \$11,150	24%
\$191,951 to \$243,725	\$383,901 to \$487,450	\$191,951 to \$243,725	\$191,951 to \$243,700	NA	32%
\$243,726 to \$609,350	\$487,451 to \$731,200	\$243,726 to \$365,600	\$243,701 to \$609,350	\$11,151 to \$15,200	35%
Over \$609,350	Over \$731,200	Over \$365,600	Over \$609,350	Over \$15,200	37%

2025 Federal Income Tax Brackets					
Single	Married Filing Jointly	Married Filing Separate	Head of Household	Estates & Trusts	Marginal Rate
Up to \$11,925	Up to \$23,850	Up to \$11,925	Up to \$17,000	Up to \$3,150	10%
\$11,926 to \$48,475	\$23,851 to \$96,950	\$11,926 to \$48,475	\$17,001 to \$64,850	NA	12%
\$48,476 to \$103,350	\$96,951 to \$206,700	\$48,476 to \$103,350	\$64,851 to \$103,350	NA	22%
\$103,351 to \$197,300	\$206,701 to \$394,600	\$103,351 to \$197,300	\$103,351 to \$197,300	\$3,151 to \$11,450	24%
\$197,301 to \$250,525	\$394,601 to \$501,050	\$197,301 to \$250,525	\$197,301 to \$250,500	NA	32%
\$250,526 to \$626,350	\$501,051 to \$751,600	\$250,526 to \$375,800	\$250,501 to \$626,350	\$11,451 to \$15,650	35%
Over \$626,350	Over \$751,600	Over \$375,800	Over \$626,350	Over \$15,650	37%

Source: Internal Revenue Service

2025 Top Federal Income Tax Rates	
Ordinary earned income, not including short-term capital gains or passive income <sup>1</sup>	37.0%
Ordinary income including net investment income (interest, short-term capital gains, non-qualified dividends and other passive income) <sup>2</sup>	40.8%
Long-term capital gains <sup>3</sup>	23.8%
Qualified dividends <sup>4</sup>	23.8%
<b>Notes:</b>	
1 Medicare surcharge of 0.9% applied to wages and self-employment income that exceeds \$200K for singles and \$250K for couples	
2 Includes interest, dividends, royalties, net rental income and other passive income	
3 Includes 3.8% surtax on net investment income over \$200K for singles and over \$250K for couples	
4 Includes 3.8% surtax on net investment income over \$200K for singles and over \$250K for couples	

Source: Internal Revenue Service

### Capital Gains Tax Rates

2024 Total Income		2025 Total Income		Long Term Capital Gains Rate
Single Filers	Married Filing Joint	Single Filers	Married Filing Joint	
Up to \$47,025	Up to \$94,050	Up to \$48,350	Up to \$96,700	0%
\$47,026 to \$518,900	\$94,051 to \$583,750	\$48,351 to \$533,400	\$96,701 to \$600,050	15%
More than \$518,900	More than \$583,750	More than \$533,400	More than \$600,050	20%

Source: Internal Revenue Service

### Net Investment Income Tax (NIIT)

2024 Net Investment Income Tax (MAGI Thresholds)		2025 Net Investment Income Tax (MAGI Thresholds)	
Single Filers	Married Filing Joint	Single Filers	Married Filing Joint
Over \$200,000	Over \$250,000	Over \$200,000	Over \$250,000

Source: Internal Revenue Service

## Retirement Plan and IRA Key Numbers

The following tables reflect IRS elective deferral limits, IRA contribution limits, and income phase-out ranges for traditional and Roth IRAs:

Elective Deferral Limits	2024	2025
401(k), 403(b), 457(b), Profit-Sharing Plans	Lesser of \$23,000 or 100% of participant's compensation (\$30,500 if age 50 or older) <sup>2</sup>	Lesser of \$23,500 or 100% of participant's compensation (\$31,000 if age 50 or older) <sup>2</sup>
Defined Contribution Plans, SEPs	Lesser of \$69,000 or 25% of participant's compensation	Lesser of \$70,000 or 25% of participant's compensation
SIMPLE 401(k) plans and SIMPLE IRA plans <sup>1</sup>	Lesser of \$16,000 or 100% of participant's compensation (\$19,500 if age 50 or older)	Lesser of \$16,500 or 100% of participant's compensation (\$20,000 if age 50 or older)
1.) Must aggregate employee deferrals to all 401(k), 403(b) and SIMPLE plans of all employers; 457(b) contributions are not aggregated. 2.) Special catch-up limits may also apply to 403(b) and 457(b) plan participants.		

Source: Internal Revenue Service

The chart below compares the 2024 and 2025 IRA contribution limits:

IRA contribution limits	2024	2025
Traditional and Roth IRAs	Lesser of \$7,000 or 100% of earned income (\$8,000 if age 50 or older)	Lesser of \$7,000 or 100% of earned income (\$8,000 if age 50 or older)
Income phaseout range for determining deductibility of traditional IRA contributions for taxpayers:	2024	2025
1. Covered by an employer-sponsored plan and filing as:		
Single/Head of household	\$77,000 - \$87,000	\$79,000 - \$89,000
Married filing jointly	123,000 - \$143,000	126,000 - \$146,000
2. Not covered by an employer-sponsored retirement plan, but filing joint return with a spouse who is covered by a plan	\$230,000 - \$240,000	\$236,000 - \$246,000
Income phaseout range for determining ability to fund a Roth IRA for taxpayers filing as:	2024	2025
Single/Head of household	\$146,000 - \$161,000	\$150,000 - \$165,000
Married filing jointly	\$230,000 - \$240,000	\$236,000 - \$246,000

Source: Internal Revenue Service

## Spousal IRA Planning

A contribution to a Traditional or Roth IRA is allowed only if the taxpayer has earned income. An exception exists for non-working spouses as long as the couple has at least \$14,000 of combined earned income. This allows the working spouse to contribute \$7,000 to their own IRA and \$7,000 to their spouse's IRA. Deductible contributions for 2025 are allowed until the return due date (April 2026 plus extensions).

## Estate, Gift and Generation-Skipping Adjustments

The exemption amounts for the estate, gift and generation-skipping taxes increase to \$13.99 million in 2025. (\$27.98 million per couple). The annual exclusion amount for gifts increases from \$18,000 to \$19,000 per year per recipient. These changes provide high net worth individuals a significant planning window to make

gifts, set up irrevocable trusts, and analyze strategies to swap high basis assets included in their taxable estate with low basis assets currently titled in irrevocable trusts.

### State Trust Tax Survey Chart

Since Colony Trust Company offers trust administration in both North Carolina and Tennessee, there could be opportunities to transfer certain administrative functions from less tax friendly states to either one of Colony Trust Company's offices. The chart below provides an overview of popular states for trust administration in the Mid-Atlantic and Southeastern regions and how they impose taxation. For example, moving the principal place of administration of a non-grantor trust from SC or MS to NC or TN could potentially generate significant state income tax savings.

State	Taxing Statute	Top Tax Rate	Under What Conditions Does The State Tax a Non-Grantor Trust?
AL	Ala. Code 40-18-1(33)	5.00%	If the trust is set up by the Will of an AL resident or settlor was an AL resident at time trust became irrevocable <u>and</u> an AL resident is a beneficiary or trustee for more than seven months during the tax year
FL	No tax	0.00%	No tax
GA	O.C.G.A. 48-7-22	5.49%	If there is trust property located in GA <u>or</u> if the trustee is "managing funds for the benefit of a resident of" GA (but see <i>Kaestner</i> where US Supreme Ct ruled unconstitutional if only connection is NC beneficiary without other factors)
MS	Miss. Code Ann. 27-7-5(1)	4.70%	If the trust is administered in MS
NC	N.C. Gen Stat. 105-160.2	4.50%	If there is a NC beneficiary (but see <i>Kaestner</i> where US Supreme Ct ruled unconstitutional if only connection is NC beneficiary without other factors)
SC	S.C. Code Ann. §12-6-30(5)	6.30%	If the trust is administered in SC
VA	Va. Code Ann. 58.1-302	5.75%	If the trust is set up by the Will of a VA resident, <u>or</u> if a trust was created by a settlor who was a VA resident, <u>or</u> a trust which is being administered in VA
TN	No tax	0.00%	No tax
DE	30 Del. Code. 1601(8)-(9)	6.60%	If the trust is set up by the Will of a DE resident, <u>or</u> settlor of trust was a DE resident, <u>or</u> the majority of the trustees are DE residents for more than ½ the year; <u>in all of such cases only if there is a DE beneficiary</u>

Source: Steve Oshins - state trust charts and state Department of Revenue websites

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