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The Tax Moves Investors Are Making No Matter Who Wins the Election

What the election returns could mean for tax returns

By Ashlea Ebeling Follow

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There are some cases where making moves before the end of this year could pay off. PHOTO: SAMUEL CORUM/GETTY IMAGES

Taxpayers aren't waiting for the election results to make changes to how they invest and earn money, figuring both candidates could lead to higher tax rates.

In 2017, Donald Trump signed the Tax Cuts and Jobs Act that lowered taxes for millions of individuals. Now, the new president and Congress face the looming expiration of many of those tax cuts at the end of 2025. If they don't reach a deal by then, taxes will rise for nearly two-thirds of taxpayers, according to Erica York, a research director at the Tax Foundation.

Among the moves investors might want to make if they are convinced taxes are headed higher is to sell stocks. Selling now would lock in capital gains at the current 20% top rate.

Kamala Harris proposes a new top capital-gains rate of 28% for high earners. She is also proposing to increase the investment income surtax. Although Donald Trump has campaigned on extending the 2017 law, taxpayers are also worried taxes could move higher if he wins, because of the nation's finances and economy.

"I don't care if it's Trump or Harris. They're going to have to raise taxes. Our national debt is beyond comprehension," said Pete Venuto, a 71-year-old retired electronics executive in Greenville, S.C.

Venuto has made a series of annual Roth IRA conversions, paying taxes on retirement savings now at the 24% marginal rate, which goes up to $383,900 for a married couple this year. He's moved hundreds of thousands of dollars from a traditional tax-deferred account into a Roth account, where any growth or withdrawals will be tax-free.

"I'm avoiding larger taxes in the future," he said.

Some taxpayers could wait until the results of the election to make their investment moves but figure there is simply no reason to wait. Others might need more time to make more complicated transactions.

Current Tax Brackets	If 2017 Cuts Expire
10%	10%
12%	15%
22%	25%
24%	28%
32%	33%
35%	35%
37%	39.6%

Source: Tax Foundation, Congressional Budget Office

Candidate proposals

Harris says she would raise taxes on the rich. Trump says he would lower income taxes and raise tariffs. If Republicans or Democrats sweep the White House and Congress, there will be more clarity about whether those promises will become policy. A divided government could mean more compromise is necessary and less action likely.

Harris's and Trump's proposals to expand tax credits for parents and home buyers, or to remove taxes on Social Security benefits or tips, would have to be paid for. Lawmakers could offset the cost of these proposals by tweaking the tax rates, especially at the top, said Kyle Pomerlau, an economist at the American Enterprise Institute, a conservative think tank.

If Congress does nothing, the tax rates will rise across income brackets, according to Congressional Budget Office estimates. The top 37% rate would rise to 39.6% and kick in at a lower level of income.

It is too early to know for certain how tax policy will shift, and there isn't much urgency to act in many instances. But there are some cases where making moves before the end of this year could pay off, including certain estate planning moves.

Income now, deductions later

Venuto's Roth conversion play is a classic example of accelerating income, what you do if you think tax rates are going up.

People who can choose when their bonuses are paid could accelerate 2025 payments into 2024 and 2026 payments into 2025, to take advantage of possibly lower tax rates, said Theresa Marx, director of wealth planning at CIBC Private Wealth in Chicago.

"People are starting to talk about this, but I suspect in 2025 it will be more front of mind," she said.

It might also pay to postpone planned charitable donations. Most taxpayers take the standard deduction under current law instead of itemizing, which means they don't get any tax benefit for donations. The expiration of the 2017 law would drop the standard deduction back in half, meaning more people would itemize donations in 2026.

Meanwhile, clients have been bundling charitable contributions into one year to get over the hurdle where itemizing gets them a bigger deduction, Marx said.

Selling assets

Potential changes to capital-gains taxes, more likely with a Democratic sweep, are prompting some taxpayers to sell stock or shares in a business. In addition to the higher capital-gains rate for those earning $1 million or more, Harris proposes increasing the 3.8% investment income surtax to 5% for taxpayers with income above $400,000.

“This is an opportunity to exit,” said Justin Miller, national director of wealth planning at Evercore Wealth Management.

Some clients who are fearful the economy will turn for the worse after the election have been selling concentrated positions of appreciated stock that they think is at a high. One strategy is to set up a charitable remainder trust and donate stock or real estate to it. You get an income stream from the trust, defer the capital gains, and have the upside of giving to charity, he said.

Maurie Cashman, a co-owner of an agriculture appraisal firm in Marion, Iowa, is completing the sale of his stake in his business over the next two years.

“I don’t like the deficits we’re running. Sooner or later there’s going to be a bill to pay, so I think it’s better to pay taxes now,” he said.

Write to Ashlea Ebeling at ashlea.ebeling@wsj.com