



(UBS)

# Will capital gains taxes go higher? Should you sell now?

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## If capital gains tax rates go higher, does it make sense to "harvest" capital gains at the current lower tax rate?

The current top marginal tax rate for dividends and long-term capital gains is **23.8%**. This is comprised of a 20% marginal income tax plus and a 3.8% net investment income tax (NIIT). See our [2024 Tax fact sheet](#) for details.

When President Joe Biden was first elected, he proposed raising the top marginal tax rate on long-term capital gains to **43.4%** (39.6% + 3.8% NIIT). That increase never passed, but his 2025 budget proposal President Biden outlined an even-higher top rate of **44.6%** (39.6% + 5% NIIT).

So far, Vice President Harris's proposals do not detail every personal income tax change that she would support, but VP Harris did recently announce her support for a more modest increase in the capital gains rate. Under her proposal, the top marginal income tax rate would go from 20% to 28%. If Vice President Harris still supports increasing the NIIT from 3.8% to 5.0% (this wasn't mentioned in her campaign's official policy paper), this will lead to a new top rate of **33%** (28% + 5% NIIT).

### Are higher capital gains taxes likely?

It seems likely that higher taxes on high-income Americans will be a part of the solution to government's deficit and debt challenges.

Vice President Kamala Harris has announced her support for several proposals to increase taxes on higher-income households, including a higher tax on capital gains.

As detailed in [our ElectionWatch report series](#), we believe that a capital gains tax increase is only likely in the Blue Sweep scenario, where the Democratic Party controls the White House, the House of Representatives, and the Senate. At the time of writing, our team gives a 15% probability of a Blue Sweep scenario in the 2024 election.

Even outside the Blue Sweep scenario, taxes are likely going higher. And even if Congress doesn't act, there are many personal income tax cuts already set to expire at the end of 2025 when the 2017 Tax Cuts and Jobs Act provisions "sunset."

### **How would higher capital gains impact markets?**

Historically, most tax increases have not had a meaningful or lasting impact on financial markets. In fact, a report from the Joint Committee on Taxation shows that investors have realized capital gains in response to a *decrease* in the capital gains tax rate, not in anticipation of an increase.<sup>1</sup> A higher tax rate enhances the value of a tax deferral strategy that aims to use a step-up in cost basis at death to reduce the impact of capital gains taxes.

It is more likely, in our view, that markets would respond to an increase in the corporate tax rate and higher regulatory scrutiny, which would more directly hamper profit growth. To learn more, please see [our ElectionWatch report series scenario analysis webpage](#).

### **Should you defer capital gains taxes, or pay taxes at the current rate?**

Ultimately, your decision should be driven by your after-tax growth potential. If you pay taxes today, those tax dollars are gone, and won't generate any further returns for you and your family. If you defer paying taxes, the dollars that you would have given to tax authorities can continue to grow in your account. Even if you ultimately pay more in taxes, at a higher tax rate, you can often still end up with more after-tax wealth. Assuming a 6% annual price return, we estimate that your after-tax wealth will be higher if you defer capital gains for at least **seven to eight years** (assuming a 33% rate) or **15 years** (assuming a 44% tax rate).

To learn more about the proposed tax changes and strategies that you can implement to manage taxes, read our full report, [Should you harvest capital gains at today's rate?](#) Your financial advisor can help you to find the right strategies for your family.

<sup>1</sup> Joint Committee on Taxation, Estimating Taxpayer Bunching Responses to the Preferential Capital Gains Tax Rate Threshold (JCX-42-19), 10 September 2019, <https://www.jct.gov/publications.html?func=startdown&id=5223>

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