



Jan 2025 – FCF Monthly Newsletter - Key Numbers as You Plan for 2025

Are you familiar with how our federal tax code originated?

In 1909, progressives in Congress attached a provision for an income tax to a tariff bill. Conservatives, hoping to thwart the idea, proposed passing the bill as they believed 75% of the states would not ratify the constitutional amendment, according to [the National Archives](#).

To their surprise, the 16th Amendment was ratified in 1913, granting Congress the authority to impose a federal income tax. Originally, less than 1% of the population paid income taxes, and the tax rate was merely 1% of net income, thanks to generous exemptions and deductions.

Today's complexity

Things have changed since. They continue to change.

Late last year, the Internal Revenue Service provided [detailed information on adjustments](#) to more than 60 tax provisions that will impact taxpayers when they file their returns in 2026 for tax year 2025.

As incorporated into law, the IRS adjusts various categories to account for inflation. Annual inflation adjustments, however, do not cover all tax provisions.

Below, we will touch on the high points. If you have questions, please reach out to us. As always, if you have specific tax questions, feel free to consult with your tax advisor.

1. Tax brackets have changed. Table 1 highlights the seven tax brackets for 2025 for single, married, head-of-household, and married filing separately.

Table 1: 2025 Tax Tables

Taxable income (\$)	Base amount of tax (\$)	Plus	Marginal tax rate	Of the amount over (\$)
Single				
0 to 11,925		+	10.0	
11,926 to 48,475	1,192.00	+	12.0	11,925.00
48,476 to 103,350	5,578.00	+	22.0	48,475.00

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103,351 to 197,300	17,651.00	+	24.0	103,350.00
197,301 to 250,525	40,199.00	+	32.0	197,300.00
250,526 to 626,350	57,231.00	+	35.0	250,525.00
Over 626,350	188,769.75	+	37.0	626,350

Married filing jointly and surviving spouses

0 to 23,850		+	10.0	
23,851 to 96,950	2,385.00	+	12.0	23,850.00
96,951 to 206,700	11,157.00	+	22.0	96,950.00
206,700 to 394,600	35,302.00	+	24.0	206,700.00
394,601 to 501,050	80,398.00	+	32.0	394,600.00
501,051 to 751,600	114,162.00	+	35.0	501,050
Over 751,600	202,154.50	+	37.0	751,600.00

Head of household

0 to 17,000		+	10.0	
17,001 to 64,850	1,700.00	+	12.0	17,000.00
64,851 to 103,350	7,442.00	+	22.0	64,850.00
103,351 to 197,300	15,912.00	+	24.0	103,350.00
197,301 to 250,500	38,460.00	+	32.0	197,300.00
250,502 to 626,350	55,484.00	+	35.0	250,500.00
Over 626,350	187,031.50	+	37.0	626,350.00

Married filing separately

0 to 11,925		+	10.0	
11,926 to 48,475	1,192.00	+	12.0	11,925.00

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48,476 to 103,350	5,578.50	+	22.0	48,475.00
103,351 to 197,300	17,651.00	+	24.0	103,350.00
197,301 to 250,525	40,199.00	+	32.0	197,300.00
250,526 to 375,800	57,231.00	+	35.0	250,525.00
Over 375,800	101,077.25	+	37.0	375,800.00

Sources: Tax Foundation, IRS

Generally speaking, the rates in Table 1 are applied to taxable income—income less the standard deduction or itemized deductions, whichever is higher. In other words, if you are married and filing jointly and taxable income is \$50,000, the first \$23,850 is taxed at 10%, and the remaining income is taxed at 12%. This does not include tax credits or self-employment tax.

Table 2: Estates and Trusts

Taxable income (\$)	Base amount of tax (\$)	Plus	Marginal tax rate	Of the amount over (\$)
0 to 3,150		+	10.0	
3,151 to 11,450	315.00	+	24.0	3,150.00
11,451 to 15,650	2,307.00	+	35.0	11,450.00
Over 15,650	3,777.00	+	37.0	15,650.00

Source: [IRS](#)

The standard rules apply to these four tax brackets. For example, if a trust has \$10,000 in income during 2025, taxes would be calculated as follows:

- 10% of \$3,150 (earnings between \$0 – \$3,100) = **\$315**
- 24% of \$6,850 (earnings between \$3,101 – \$10,000) = **\$1,644**
- Add the two together, and total federal taxes due = **\$1,959**

2. For single taxpayers and married individuals filing separately for the tax year 2025, **the standard deduction rises** to \$15,000 for 2025, an increase of \$400 from 2024, according to the IRS.

For married couples filing jointly, the standard deduction rises to \$30,000, up \$800 from tax year 2024. For heads of households, the standard deduction will be \$22,500 for tax year 2025, an increase of \$600 from the amount for 2024.

For single filers and heads of households age 65 and over, the [additional standard deduction](#) will rise from \$1,950 in 2024 to \$2,000 in 2025.

For 2025, married couples over 65 filing jointly, the additional deduction per qualifying spouse will increase from \$1,550 in 2024 to \$1,600 in 2025, a \$50 increase per qualifying spouse. If both are older than 65, there is a total increase in their standard deduction of \$100.

3. For tax year 2025, **alternative minimum tax exemption amounts** for [unmarried individuals](#) is \$88,100 (\$68,650 for married individuals filing separately) and begins to phase out at \$626,350.

For married couples filing jointly, the exemption amount is \$137,000 and begins to phase out at \$1,252,700.

4. The **maximum child tax credit** is \$2,000 per qualifying child. It is not adjusted for inflation. The refundable portion of the child tax credit is adjusted for inflation and will remain at \$1,700 for 2025.

5. The **gift and estate exemption** for individuals in 2025 is \$14.0 million, up from \$13.6 million in 2024. The **annual gift tax exclusion** for 2025 is \$19,000, up \$1,000 in 2024, without using any of the lifetime gift and estate tax exemption.

6. **Favorable treatment for long-term capital gains** is a cherished tax break for investors. Long-term capital gains, such as the profit on the sale of a stock held for more than one year, are taxed at a more favorable rate than short-term gains. A short-term gain is taxed as if it were ordinary income. Qualified dividends are also taxed at a lower rate.

Table 3: 2025 Tax Rates on Long-Term Capital Gains and Qualified Dividends

Taxable income-Tax rate

If taxable income falls **below** \$48,350 (single/married-filing separately), \$96,700 (joint), \$64,750 (head of household), \$3,250 (estates)-0%

If taxable income falls **at or above** \$48,350 (single/married-filing separately), \$96,700 (joint), \$64,750 (head of household), \$3,250 (estates)-15%

If income falls **at or above** \$533,400 (single), \$300,000 (married-filing separately), \$600,050 (joint), \$566,700 (head of household), \$15,900 (estates)-20%

3.8% tax on lesser of net investment income or excess of MAGI over

Married, filing jointly-\$250,000

Single-\$200,000

Married, filing separately-\$125,000

Source: [IRS](#)

7. The Tax Cuts and Jobs Act (TCJA) of 2017 includes a **20% deduction for pass-through businesses**. Limits on the deduction begin phasing in for taxpayers with income above \$197,300 (or \$394,600 for joint filers) in 2025. This compares to income above \$191,950 and \$383,900, respectively, for joint filers in 2024.

8. Other taxes you may be subject to or credits you may capture.

- High-income taxpayers are subject to the **net investment income tax** of 3.8%, levied on the lesser of net investment income or the excess of modified adjusted gross income (MAGI) over the following threshold amounts: \$200,000 for single and head of household filers, \$250,000 for married filing jointly or qualifying surviving spouse, and \$125,000 for married filing separately.

These amounts have never been indexed to inflation.

In general, net investment income includes but is not limited to interest, dividends, capital gains, rental and royalty income, and non-qualified annuities, according to the IRS.

Net investment income generally does not include wages, unemployment compensation, Social Security Benefits, alimony, and most self-employment income.

Tax on a child's investment and other unearned income, also known as the **kiddie tax**, applies to unearned income for children under the age of 19 and college students under the age of 24. Unearned income is income from sources other than wages and salary, like dividends and interest.

The exemption from the kiddie tax for 2025 rises by \$100 to \$2,700, according to the IRS. A parent will be able to elect to include a child's income on the parent's return for 2025 if the child's income is more than \$1,350 and less than \$13,500, which compares to \$1,300 and \$13,000, respectively, in 2024.

- For tax year 2025, the **maximum credit allowed for an adoption of a child** with special needs is the amount of qualified adoption expenses up to \$17,280, increased from \$16,810 for 2024.

The available adoption credit [begins to phase out](#) for taxpayers with a modified adjusted gross income above \$259,190. It is completely phased out for taxpayers with a MAGI of \$299,190 or more.

The credit is [non-refundable](#), so the amount cannot exceed your tax liability. However, you may apply any excess credit amount to future years, up to five years.

IRA contributions

The [IRA contribution limit for 2024 and 2025](#) is \$7,000 for those under age 50, and \$8,000 for those age 50 or older.

This is up from 2023's limits of \$6,500 for those under age 50, and \$7,500 for those age 50 or older. You can make 2025 IRA contributions until your April 15 federal tax deadline for income earned in 2025.

SEP-IRA limits

The [SEP-IRA contribution limit for 2025](#) is 25% of an employee's total compensation, up to \$70,000, and up \$1,000 from 2024. Contributions may only be made by employers.

If you are self-employed, you may make an employer contribution on your own behalf. If you're self-employed, your contributions are generally limited to 20% of your net income.

Changes may be on the horizon

The TCJA significantly increased the standard deduction, simplifying the filing process, as it eliminated the need for many taxpayers to itemize. But it also scrapped the personal exemption.

Unless extended, please be aware that many provisions of the TCJA will expire at the end of 2025. Republicans generally favor a broad extension of the TCJA. However, it is uncertain how negotiations will eventually play out regarding key provisions. Any changes will be implemented for tax year 2026.

Expected changes if the TCJA is allowed to sunset:

- When the TCJA expires at the end of 2025, marginal tax rates for individuals will revert to pre-TCJA levels, including a maximum rate of 39.6%, up from 37%.
- The standard deduction will return to pre-TCJA levels, with an adjustment for inflation. For single filers, the standard deduction would fall to approximately \$8,300 and \$16,600 for joint filers.
- The child tax credit will be reduced to \$1,000 from \$2,000.

The personal exemption will be reinstated and valued at about \$5,300, per the [Tax Foundation](#).

- The gift and estate tax exemption will be reduced for individuals to roughly \$7.5 million, according to [Fidelity](#).
- The \$10,000 cap on itemized state and local taxes (SALT) will be removed.
- The special 20% tax deduction for pass-through businesses will disappear.

We are mindful that the tax code is quite complex. We are happy to answer any questions you may have. Feel free to consult with your tax advisor.

2024—Another rise in excess of 20%

One year ago, we opined, "Rate cuts that occur because the Fed 'can,' not because they 'must,' is the preferred path" for investors.

It's not that we have special insights when peering into the future. We have yet to find anyone who can consistently and accurately forecast peaks and valleys in the stock market.

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But we recognize that Federal Reserve rate cuts in response to weak economic growth (the “must” cut scenario) have historically failed to spur market gains.

For example, rate cuts by the Fed that were tied to recessions in 1974, 1990, 2001, and 2008 failed to prevent a slide in stocks until investors anticipated an economic upturn.

Last year, Fed officials indicated the possibility of rate cuts throughout the year, not due to fears of a damaging recession, but because they correctly anticipated a slowdown in the rate of inflation (the “can” cut scenario).

Prices are still elevated, and inflation continues to exceed the Federal Reserve’s annual target of 2%. However, the inflation rate did ease during the year, which encouraged the Fed to take action in September. This led to three consecutive reductions in interest rates.

By the end of the year, the Fed had lowered the fed funds rate by a full percentage point to 4.25 – 4.50%.

The economy continues to expand, and with it, most major corporations are generating significant profits, according to LSEG.

Simply put, an easier monetary policy combined with economic growth and rising corporate profits fueled the second consecutive annual gain of over 20% in the S&P 500. This is the first such back-to-back increase since the late 1990s, according to *The Wall Street Journal*.

Other catalysts added to the advance, but the economic fundamentals played a significant role in last year’s returns.

Table 4: Key Index Returns

Index	MTD %	YTD %
Dow Jones Industrial Average	-5.3	12.9
NASDAQ Composite	0.5	28.6
S&P 500 Index	-2.5	23.3
Russell 2000 Index	-8.4	10.0
MSCI World ex-U.S.A.**	-2.8	2.0
MSCI Emerging Markets**	-0.3	5.1
Bloomberg U.S. Agg Total Return	-1.6	1.3

Source: *The Wall Street Journal*, *MSCI.com*, *Bloomberg*, *MarketWatch*
 MTD returns: November 29, 2024–December 31, 2024

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YTD returns: December 29, 2023–December 31, 2024

***in US dollars*

Nonetheless, we believe it's important to highlight the difference in performance between the Dow Jones Industrial Average and the S&P 500 Index in 2024. This discrepancy can be attributed in part to the differing methodologies used to calculate these indexes.

Additionally, the surge in mega-cap technology stocks significantly contributed to the growth of the S&P 500 Index this year.

According to Barron's and Dow Jones Market Data, seven large tech firms known as the Magnificent 7 made up over half the gains in the S&P 500 Index, a carryover of 2023's performance.

Two steps forward, one step back, two steps forward

Although volatility can be unsettling, it is often temporary. Last year's maximum peak-to-trough pullback for the S&P 500 Index amounted to just under 9%, according to S&P data from the St. Louis Federal Reserve. Volatility was tied to a shift in monetary policy by the Bank of Japan.

Nonetheless, investors quickly shifted their focus back to U.S. economic fundamentals, and stocks notched new highs.

The new year

As we gear up for 2025, many of the major themes that drove the market higher last year remain in place. The **economy is expanding**, and **corporate profits** are expected to remain on an upward trajectory. Although the Fed is eyeing fewer **rate cuts** this year, it isn't currently considering rate hikes.

Furthermore, the incoming Trump Administration is expected to promote business-friendly policies such as **deregulation**, which will likely benefit both the economy and corporate profits. We may see a **reduction in the corporate tax rate**, while additional **corporate stock buybacks** are expected to underpin stocks.

Nonetheless, no one can accurately foretell the future. That's a given.

What are some potential pitfalls that might stymie investors in 2025?

For starters, a **rebound in inflation** could force the Fed to raise interest rates. Such a move would likely generate uncertainty for a market that is richly valued and priced for perfection. On the other hand, if the Fed is too cautious and misjudges the economy, a **deteriorating economic outlook** could quickly hamper corporate profits.

Meanwhile, pro-business policies that are expected to be ushered in by the new president bolstered optimism following the election.

But if soon-to-be President Trump enacts **sweeping tariffs**, we may see a bump in inflation that is accompanied by slower economic growth. In 2018, Trump was more selective as he enacted tariffs, which generated market volatility and uncertainty.

Despite multiple Fed rate cuts last year, **longer-term Treasury bond yields** turned significantly higher over the last three months amid slower progress on inflation, upbeat economic growth, and a stubbornly high federal deficit.

A continued increase in yields could pose a greater challenge for stocks.

Final thoughts

A diversified portfolio cannot completely shelter you from market pullbacks, but it can help lower volatility and has historically been the most effective path to achieve one's financial goals.

Our approach is guided not only by our experience but also by the weight of academic research. We recognize that stocks are not immune to periods of subpar returns, but patient and disciplined investors have historically been rewarded.

I trust you have found this review to be informative. If you have any inquiries or wish to discuss any other matters, please don't hesitate to contact us.

Thank you for choosing us as your financial advisors. We are honored and humbled by your trust.

As we bid farewell to 2024, may the New Year bring you excitement, adventure, and fulfillment. May the year create cherished memories and be filled with joy. Happy New Year from all of us!

Thank you for reading,

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S&P 500 – A capitalization-weighted index of 500 stocks designed to measure the performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

Russell 2000 Index - The Russell 2000 Index measures the performance of the small-cap segment of the U.S. equity universe and is a subset of the Russell 3000 Index representing approximately 10% of the total market capitalization of that index. It includes approximately 2000 of the smallest securities based on a combination of their market cap and current index membership.

The MSCI World ex USA Index - The MSCI World ex USA Index captures large and mid-cap representation across 22 of 23 Developed Markets (DM) countries--excluding the United States. With 853 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country.

MSCI Emerging Markets – Designed to measure equity market performance in global emerging markets. It is a float-adjusted market capitalization index.

Bloomberg U.S. Aggregate Bond – The Bloomberg U.S. Agg Total Return Value Unhedged, also known as "Bloomberg U.S. Aggregate Bond Index," formerly known as the "Barclays Capital U.S. Aggregate Bond Index," and prior to that, the "Lehman Aggregate Bond Index," is a broad-based flagship benchmark that measures the investment grade, U.S. dollar-denominated, fixed-rate taxable bond market. The index includes Treasuries, government-related and corporate securities, MBS (agency fixed-rate pass-throughs), ABS, and CMBS (agency and non-agency).

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