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FINANCIAL
FOCUS

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END OF THIS
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AND PROVISIONS.*

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- Quarterly Market Recap
- Higher tax rates will hurt the economy, perhaps to the point of recession, and the investment markets.

Fourth Quarter 2024

January 2, 2025

QUARTERLY MARKET RECAP

The final quarter of 2024 had to contend with some volatility, but ended well and capped off a strong year for equities. Federal Reserve policy is now a balancing act between trying to maintain progress on inflation without throwing too much water on the economy.

Last quarter all the major equity indexes hit new record highs, and ended up with the DJIA adding 0.50% and breaching 45,000 before pulling back. The S&P 500 passed the 6,000 level and rose 2.07%, and while the NASDAQ got above 20,000 before backing off, it picked up 6.17%. The small-cap Russell 2000 also got to an all-time high, but ended up flat. Global stocks have lagged in

part due to the continued-strong US dollar, and ended off 0.41% to round out the equity front. The bond market is still trying to sort out what the Fed will do in the coming year with interest rates, and during December ratcheted back its previous optimism and is currently pricing in just two quarter-point cuts this year. The Barclay's Aggregate Bond Index declined 3.20% last quarter. Inflation is getting closer to the Fed's 2% target, but flares up some along the way. But the labor market is stable. Corporate earnings and economic growth are decent, and the markets cheered the election results. But as we stated before, we have many economic policy changes coming in 2025 and 2026 which will have significant impact.

IT'S ALWAYS GOOD TO REMIND OURSELVES WHO ACTUALLY PAYS THE TAXES IN OUR ECONOMY.

One of the first orders of business for the new Trump Administration and the 119th Congress will be to take up the ticking clock on our current tax laws. And during the debate between the high-tax and low-tax factions, we will hear the familiar pronouncement that the "rich" need to pay their "fair share". The distinct implication being that they do not pay their fair share. But is that really true? Let's take a look.

According to recently released IRS data for 2022, the most-recent year they've compiled this information, as analyzed by the Tax Foundation, the top 1% of taxpayers paid in 40.4% of all tax revenue. And the top 10% of filers paid over 72% of the tax burden.

After this year, if a new law is not passed to address this, *everyone's* rates will revert back to the Obama-era higher levels, including the rate on this highest 1% to 39.6% from 37%. You will hear arguments that not allowing this to happen will be a give-away to millionaires and billionaires because they do not pay their fair share.

This top 1% category represents about 1.5

million tax returns with adjusted gross incomes above \$663,000. This group makes up 22.4% of the nation's total reported earnings, yet they paid nearly double that share in taxes. Their average effective federal tax rate was 26.1%. Many polls have indicated that people agree that no more than a quarter of someone's income should be taxed away from them, from all taxing jurisdictions. This is more than that just for the federal income tax bill. So those paying at this level pay two times more in taxes than their share of the income, but that's not "fair". We agree – it is not fair – it's punitive. Especially when we consider that many of these folks are the employers to the others.

Looking further at the group of taxpayers who are between the top 1% and the top 5%, there are around 6.2 million returns between \$262,000 and \$663,000 of AGI. These people had 15.9% of the total earnings, but paid 20.6% of the income-tax revenue. Their average effective tax rate was 18.8%. So, these folks also paid a higher proportion to the Treasury than their income would indicate.

The next group is the top 5% to 10%. Among them there are about 7.7 million returns

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between \$179,000 of income and \$262,000. This works out to be the most equitable, or “fair” because they had 11.1% of the earnings and paid 11.0% of the taxes. Their average effective rate was 14.3%.

The next band between the top 10% and 25% represents about 23.1 million tax returns of \$100,000 to \$179,000 of income. That share is 20.5% of the national income, and they paid 15.2% of the taxes with an average rate of 10.7%. You can see this is getting lopsided in favor of lower-income earners.

To round out the upper half of the spectrum, the group between the top 25% and 50% had about 38.5 million tax returns between \$50,000 and \$100,000 of income, representing 18.6% of the national income, paying 9.9% of the taxes with an average rate of 7.7%.

This leaves the bottom half of the country with 76.9 million returns earning under \$50,000. They encompass 11.5% of the income and paid only 3% of the taxes, with an average rate of 3.7%, which is about half the national average sales tax rate. Further, they are the beneficiaries of the bulk of the money spent on individuals via transfer payments by the tax-paying group through the federal government, not counting state and local governments, which add even more benefits.

Another important point should be made about this last group. These statistics do not consider “refundable tax credits” paid to those with no tax liability, so this overstates the actual income tax burden shouldered by this bottom 50% group. These are treated as spending and are not reflected in the IRS numbers, so this means tens of millions of Americans have a

negative income tax rate. Effectively, the checks they get from the government are welfare.

This is the actual data, not a bunch of politicians trying to obscure the reality of the situation to score raw political points. To suggest that the higher-income earners in our economy are somehow getting away with a free ride is absurd.

We would love to ask these politicians what the top income bracket’s “fair share” is. Since they emphatically know they are not paying it, they must know what that level is. If the top 1% paying over 40% of the taxes is not their “fair share”, what is? Half their income? Three quarters? All of it? They get away with saying this because they never are challenged to define it. And, they rely on the ignorance of the general population to just go along with it, since vilifying those they envy is a basic human failing for some. It all polls well for them. The sad thing is, those who know better do not point these facts out, so they perpetuate the lie, and are therefore complicit, leading to bad policy.

Not understanding a problem will not fix it. The fiscal problems we have, as we have said many times – most recently in our last newsletter – are fundamentally a lack of spending discipline. The citizens of this country are taxed plenty, with a very few at the top doing the bulk of the lifting. While this may be wishful thinking, making the hard choices about the allocation of scarce resources, not sucking more productivity out of the private sector, will keep us out of recessions.

“We have two parties here, and only two. One is the evil party and the other is the stupid party. Occasionally the two parties get together and do something that’s both evil and stupid. That’s called bi-partisanship.”

- M. Stanton Evans

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ABOUT PETERSON FINANCIAL SERVICES, LLC

As an aside, we wish to remind our clients of our various services. While we specialize in portfolio management, we continue to provide financial planning and insurance services. Longtime clients may have forgotten this, and newer clients may not be aware of this. Additionally, we build our business through referrals, and much appreciate them. Please keep us in mind as you come across friends, family and colleagues who might benefit from our financial services. We appreciate your business.

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