9-15-25

WSJ Print Edition

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Stock-Market Surge Is Juicing Federal Tax Receipts

BY RICHARD RUBIN

WASHINGTON—Tariffs are rolling into the Treasury, but there is another source of rising revenue that is proving to be just as important: the stock market.

On returns for tax year 2024 filed through mid-July, taxpayers reported $530 billion in net capital gains, up 65% from the prior year, according to new Internal Revenue Service data. The full effect of that on collections isn't clear yet because of varying tax rates and returns that are still arriving, but there are strong signs that equity-market gains are turning into rising federal revenue.

Individual income-tax payments outside of paycheck withholding—a category that includes many capital gains realized last year—are up about 16% since January compared with a year earlier, ac-cording to the Congressional Budget Office. After adjusting for a timing shift in payment deadlines, that income-tax jump is adding more than $100 billion to federal revenue this fiscal year, about as much as the rise in tariff revenue.

The higher payments mostly reflect returns filed for 2024, CBO said. Along with the tariffs, they are helping keep budget deficits from climbing even higher. Already, the U.S. has been running historically high deficits outside of wars, recessions or emergencies.

Note

Last year, the S&P 500 index rose 23%, following a 24% gain in 2023. That broad-market gauge is up another 12% this year as of Friday's close. As equities rise, investors tend to realize gains, triggering federal taxes of up to 23.8%. Capital-gains growth isn't as strong as it was during tax year 2021, a surge that pushed individual income-tax revenue to record levels as a share of the economy.

"We are coming off back-toback years of almost 25% returns in equities, so that alone would suggest that we're going to see some of this flow in," said John Ricco, associate director of policy analysis at the Budget Lab at Yale, a group started by former Biden administration officials.

The data will become clearer as the final 2024 tax returns reach the IRS. Taxpayers must pay what they owe by mid-April, so payments for 2024 have largely already arrived. But people can extend tax filing until mid-October, meaning the government doesn't yet have precise data about revenue patterns.

Many wealthy Americans wait to file, and capital gains are concentrated at the top of the income scale. More than a third of capital gains on 2024 tax returns so far went to the 0.3% of households with adjusted gross incomes above $1 million.

Revenue from tariffs is rising following President Trump's decisions to impose them broadly on U.S. imports. In the first 11 months of this fiscal year, the U.S. collected $172 billion in tariffs, up from $76 billion a year earlier, according to the Treasury Department. That increase is roughly as big as the incometax bump, but tariffs are growing faster in percentage terms. Tariffs are now about 3.7% of federal revenue, up from 1.7%.

Tariffs and capital-gains revenue are both potentially volatile, but for different reasons. The Supreme Court is considering whether Trump's tariffs exceed his legal authority; a ruling against the administration could prompt billions in refunds. Capital-gains taxes move with markets, and a down year could also hit reported gains.

"You are not going to be getting that reliably from capital- gains receipts," said Alex Arnon, director of policy analysis at the Penn Wharton Budget Model.

The increases in tariffs and income-tax revenue come as the U.S. faces a structural imbalance between taxes and spending. The federal budget deficit will likely be $1.8 trillion for the fiscal year ending Sept. 30, little changed from the preceding two years, according to CBO. That includes $130 billion in spending reductions expected to be recorded in one chunk now to reflect future savings in student- loan programs.

On the revenue side, rising tariffs and capital-gains taxes are counteracted by the new tax cuts. On the spending side, reductions in Medicaid and nutrition-assistance expenditures are coming soon because of the new law. The largest chunks of spending—Social Security, Medicare and interest on the national debt—all rose 7% to 8% so far this fiscal year, according to the Treasury Department.