HAYES ADVISORY GROUP
RETIREMENT PLANNING

Knowledge is Power

Question of the Month

"Hi Brian. I have heard our current tax code expires soon, and then tax rates and brackets will go up for everyone. Is this true, and if so, what can I do to help protect myself and my retirement plan from higher taxes in the future? Thank you." **Ronald**

Hi Ronald. The Tax Cuts and Jobs Act, which changed the tax code and reduced tax rates and raised brackets, went into effect in 2018. This act reduced tax rates to one of the lowest points in the history of the tax code. Unfortunately, it was not made permanent, and this tax code expires at the end of 2025. So, in 2026, when you do your taxes for 2025, that will be the last year at these lower tax rates. That is why we have been preaching on my radio show for the last several years that time is running out to get your retirement plan transitioned to be as tax efficient as possible before this current tax code expires. Why is this so important? Well, let me show you the difference between what the tax rates and brackets are at currently versus what they'll be in 2026 under current law.

If nothing is changed between now and the end of 2025, then we revert back to the tax code in 2017. So currently, the 12% tax bracket goes up to $95,000, after the standard deduction. That bracket will revert back to 15% in 2026, but only up to $76,000. The next bracket is currently 22%, which is for incomes between $95,000 and $201,000. In 2026, that bracket goes back to 24%, but the bracket only goes up to $153,000. The next bracket up is currently 24%, which is for incomes between $201,000 and $384,000. In 2026, that bracket goes to 28%, but only for incomes up to $233,000.

So, as you can see here, not only do tax rates go up, but the range in the brackets comes down, which means it can really be a large tax increase for many people. For example, lets say you have taxable income of $300,000. For this year and next, you would be in the 24% tax bracket. But in 2026, you would be in the 32% tax bracket. To put dollars to that, assuming the standard deduction is the same, currently you would owe about

$58,000 in federal tax on $300,000 of taxable income in for 2024. In 2026, you would owe about $73,500. So, about $15,500 more in federal tax. How does that make you feel?

Let's look at it if you have $100,000 of taxable income. Currently, you would owe $12,040 in federal tax, but in 2026, your taxes would go up to $16,565. That is a 37.5% tax increase! Again, how does that make you feel? Now remember, this tax increase will not just affect people who are working. It will affect most retirees as well as most people have the majority of their retirement savings in pre-tax traditional retirement savings accounts, like an IRA, 401k, 403b, etc. And when you take money out of those accounts for income, which the government forces you to at a certain age, that is taxable income and can also trigger taxes on your Social Security income, additional taxes on dividends and capital gains and potentially higher Medicare part B premiums. So, you can really see how big of a problem this can become, and why it is so very important to start implementing tax strategies and a tax efficient program into your retirement plan to help protect you when tax rates increase.

So, how do you do this? Well, fortunately there are tools available still that will allow you to move money from your taxable accounts to tax free accounts where it will grow tax free and be protected from tax increases in the future. Join me this weekend on The Retirement Money Matters Radio Show where I will share with you the tools available, and how to get your retirement plan protected from higher tax rates in the future. The show airs on Saturday morning at 6 a.m. on WIBC (93.1 FM), Sunday morning at 8 a.m. on WWKI (100.5 FM) and anytime on www.theretirementmoneymattersshow.com.