

Money Matters

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Skloff Financial Group Question of the Month

By Aaron Skloff, AIF, CFA, MBA

Q: We read 'Income Tax and Capital Gains Rates 2024' Part 1. Can you give examples of marginal and effective income tax rates?

The Problem – Maze of Marginal and Effective Income Tax Rates

Looking at an income tax rates table may lead some to believe all their income is taxed at the top marginal income tax bracket.

The Solution – A Side by Side Comparison of Marginal and Effective Income Tax Rates

By examining scenarios on a side-by-side basis, we can see how age, adjustments to income, standard deductions and filing status can affect income taxes. The 2024 standard deduction for single filers under age 65 is \$14,600, with an additional \$1,950 for those 65 and over. The 2024 standard deduction for joint filers under age 65 is \$29,200, with an additional \$3,100 for those 65 and over. The 2024 maximum pre-tax contribution limit to many employer retirement plans (i.e.: 401(k), 403(b) and 457(b)) is \$23,000 for those under age 50 and \$30,500 for those 50 and over. **The following scenarios are based on the taking the standard deduction.**

Age 40 Single Filer Not Contributing Versus Maximizing Contributions to a Retirement Plan. A 40-year-old single filer with \$300,000 of income would be subject to a **35%** top marginal income tax bracket. If he does not contribute to his employer retirement plan, he will pay \$70,409 in taxes and have a **23.5%** effective income tax rate. If he maximizes contributions to his employer retirement plan, he will pay \$62,359 in taxes and have a **20.8%** effective income tax rate.

Both Age 40 Joint Filers Not Contributing Versus Maximizing Contributions to a Retirement Plan. Two 40-year-old joint filers with \$300,000 of combined income would be subject to a **24%** top marginal income tax bracket. If they do not contribute to their company retirement plan, they will pay \$51,077 in taxes and have a **17%** effective income tax rate. If they maximize contributions to their employer retirement plan, they will pay \$40,037 in taxes and have a **13.3%** effective income tax rate.

Age 65 Single Filer Not Contributing Versus Maximizing Contributions to a Retirement Plan. A 65-year-old single filer with \$300,000 of income would be subject to a **35%** top marginal income tax bracket. If he does not contribute to his employer retirement plan, he will pay \$69,726 in taxes and have a **23.2%** effective income tax rate. If he maximizes contributions to his employer retirement plan, he will pay \$59,051 in taxes and have a **19.7%** effective income tax rate.

Both Age 65 Joint Filers Not Contributing Versus Maximizing Contributions to a Retirement Plan. Two 65-year-old joint filers with \$300,000 of combined income would be subject to a **24%** top marginal income tax bracket. If they do not contribute to their company retirement plan, they will pay \$50,333 in taxes and have a **16.8%** effective income tax rate. If they maximize contributions to their employer retirement plan, they will pay \$35,693 in taxes and have a **11.9%** effective income tax rate.

2024 Marginal and Effective Income Tax Rates								
	Age 40 Single Filer	Age 40 Single Filer	Both Age 40 Joint Filers	Both Age 40 Joint Filers	Age 65 Single Filer	Age 65 Single Filer	Both Age 65 Joint Filers	Both Age 65 Joint Filers
Taxable Income	\$ 300,000	\$ 300,000	\$ 300,000	\$ 300,000	\$ 300,000	\$ 300,000	\$ 300,000	\$ 300,000
Retirement Plan Contribution	\$ -	\$ (23,000)	\$ -	\$ (46,000)	\$ -	\$ (30,500)	\$ -	\$ (61,000)
Net Taxable Income Before Deductions	\$ 300,000	\$ 277,000	\$ 300,000	\$ 254,000	\$ 300,000	\$ 269,500	\$ 300,000	\$ 239,000
Standard Deduction	(\$14,600)	(\$14,600)	(\$29,200)	(\$29,200)	(\$14,600)	(\$14,600)	(\$29,200)	(\$29,200)
Additional Standard Deduction	\$ -	\$ -	\$ -	\$ -	\$ (1,950)	\$ (1,950)	\$ (3,100)	\$ (3,100)
Net Taxable Income	\$ 285,400	\$ 262,400	\$ 270,800	\$ 224,800	\$ 283,450	\$ 252,950	\$ 267,700	\$ 206,700
Top Marginal Income Tax Rate	35.0%	35.0%	24.0%	24.0%	35.0%	35.0%	24.0%	24.0%
Tax at 10% Rate	\$ (1,160)	\$ (1,160)	\$ (2,320)	\$ (2,320)	\$ (1,160)	\$ (1,160)	\$ (2,320)	\$ (2,320)
Tax at 12% Rate	\$ (4,266)	\$ (4,266)	\$ (8,532)	\$ (8,532)	\$ (4,266)	\$ (4,266)	\$ (8,532)	\$ (8,532)
Tax at 22% Rate	\$ (11,743)	\$ (11,743)	\$ (23,485)	\$ (23,485)	\$ (11,743)	\$ (11,743)	\$ (23,485)	\$ (23,485)
Tax at 24% Rate	\$ (21,942)	\$ (21,942)	\$ (16,740)	\$ (5,700)	\$ (21,942)	\$ (21,942)	\$ (15,996)	\$ (1,356)
Tax at 32% Rate	\$ (16,712)	\$ (16,712)	\$ -	\$ -	\$ (16,712)	\$ (16,712)	\$ -	\$ -
Tax at 35% Rate	\$ (14,586)	\$ (6,536)	\$ -	\$ -	\$ (13,904)	\$ (3,229)	\$ -	\$ -
Tax at 37% Rate	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Total Taxes	\$ (70,409)	\$ (62,359)	\$ (51,077)	\$ (40,037)	\$ (69,726)	\$ (59,051)	\$ (50,333)	\$ (35,693)
Net Income	\$ 214,991	\$ 200,041	\$ 219,723	\$ 184,763	\$ 213,724	\$ 193,899	\$ 217,367	\$ 171,007
Effective Income Tax Rate	23.5%	20.8%	17.0%	13.3%	23.2%	19.7%	16.8%	11.9%

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Action Steps

Work closely with your Registered Investment Adviser (RIA) to optimize your marginal income tax brackets to pay the lowest effective income tax rates in the current tax year and future tax years.

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