

# Money Matters

April 1, 2026

## Skloff Financial Group Question of the Month

By Aaron Skloff, AIF, CFA, MBA

**Q: We read 'Income Tax and Capital Gains Rates 2026' 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 2026 standard deduction for single filers under age 65 is \$16,100, with an additional \$2,000, plus for those age 65 and over plus up to an additional \$6,000 based on income for those 65 and over. The 2026 standard deduction for joint filers under age 65 is \$32,200, with an additional \$3,300 for those 65 and over, plus up to an additional \$12,000 based on income for those 65 and over. The 2026 maximum pre-tax contribution limit to many employer retirement plans (i.e.: 401(k), 403(b) and 457(b)) is \$24,500 for those under age 50, \$32,500 for those 50-59 or 64+, and \$35,750 for those 60-63. **The following scenarios are based on taking the standard deduction.**

**Age 40 Single Filer Not Contributing Versus Maximizing Contributions to a Retirement Plan.** A 40-year-old single filer with \$340,000 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 \$82,135 in taxes and have a **24.2%** effective income tax rate. If he maximizes contributions to his employer retirement plan, he will pay \$73,560 in taxes and have a **21.6%** 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 \$340,000 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 \$59,068 in taxes and have a **17.4%** effective income tax rate. If they maximize contributions to their employer retirement plan, they will pay \$47,308 in taxes and have a **13.9%** effective income tax rate.

**Age 65 Single Filer Not Contributing Versus Maximizing Contributions to a Retirement Plan.** A 65-year-old single filer with \$340,000 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 \$81,417 in taxes and have a **23.9%** effective income tax rate. If he maximizes contributions to his employer retirement plan, he will pay \$70,042 in taxes and have a **20.6%** 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 \$340,000 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 \$58,276 in taxes and have a **17.1%** effective income tax rate. If they maximize contributions to their employer retirement plan, they will pay \$42,676 in taxes and have a **12.6%** effective income tax rate.

2026 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	\$ 340,000	\$ 340,000	\$ 340,000	\$ 340,000	\$ 340,000	\$ 340,000	\$ 340,000	\$ 340,000
Retirement Plan Contribution	\$ -	\$ (24,500)	\$ -	\$ (49,000)	\$ -	\$ (32,500)	\$ -	\$ (65,000)
Net Taxable Income Before Deductions	\$ 340,000	\$ 315,500	\$ 340,000	\$ 291,000	\$ 340,000	\$ 307,500	\$ 340,000	\$ 275,000
Standard Deduction	(\$16,100)	(\$16,100)	(\$32,200)	(\$32,200)	(\$16,100)	(\$16,100)	(\$32,200)	(\$32,200)
Additional Standard Deduction	\$ -	\$ -	\$ -	\$ -	\$ (2,050)	\$ (2,050)	\$ (3,300)	\$ (3,300)
Net Taxable Income	\$ 323,900	\$ 299,400	\$ 307,800	\$ 258,800	\$ 321,850	\$ 289,350	\$ 304,500	\$ 239,500
<b>Top Marginal Income Tax Rate</b>	<b>35.0%</b>	<b>35.0%</b>	<b>24.0%</b>	<b>24.0%</b>	<b>35.0%</b>	<b>35.0%</b>	<b>24.0%</b>	<b>24.0%</b>
Tax at 10% Rate	\$ (1,240)	\$ (1,240)	\$ (2,480)	\$ (2,480)	\$ (1,240)	\$ (1,240)	\$ (2,480)	\$ (2,480)
Tax at 12% Rate	\$ (4,560)	\$ (4,560)	\$ (9,120)	\$ (9,120)	\$ (4,560)	\$ (4,560)	\$ (9,120)	\$ (9,120)
Tax at 22% Rate	\$ (12,166)	\$ (12,166)	\$ (24,332)	\$ (24,332)	\$ (12,166)	\$ (12,166)	\$ (24,332)	\$ (24,332)
Tax at 24% Rate	\$ (23,058)	\$ (23,058)	\$ (23,136)	\$ (11,376)	\$ (23,058)	\$ (23,058)	\$ (22,344)	\$ (6,744)
Tax at 32% Rate	\$ (17,424)	\$ (17,424)	\$ -	\$ -	\$ (17,424)	\$ (17,424)	\$ -	\$ -
Tax at 35% Rate	\$ (23,686)	\$ (15,111)	\$ -	\$ -	\$ (22,969)	\$ (11,594)	\$ -	\$ -
Tax at 37% Rate	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Total Taxes	\$ (82,135)	\$ (73,560)	\$ (59,068)	\$ (47,308)	\$ (81,417)	\$ (70,042)	\$ (58,276)	\$ (42,676)
Net Income	\$ 241,765	\$ 225,840	\$ 248,732	\$ 211,492	\$ 240,433	\$ 219,308	\$ 246,224	\$ 196,824
<b>Effective Income Tax Rate</b>	<b>24.2%</b>	<b>21.6%</b>	<b>17.4%</b>	<b>13.9%</b>	<b>23.9%</b>	<b>20.6%</b>	<b>17.1%</b>	<b>12.6%</b>

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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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