Act now to save on taxes later

Tax cuts set to expire

If you've been saving for retirement by using strategies to defer taxes until you're in a lower tax bracket, you'll want to make sure you have a good understanding of the current—and future—tax environment and how it relates to the taxes you may owe. With tax rates set to rise at the end of 2025, now may be the time to rethink your retirement strategy.

Upcoming changes to tax rates and brackets

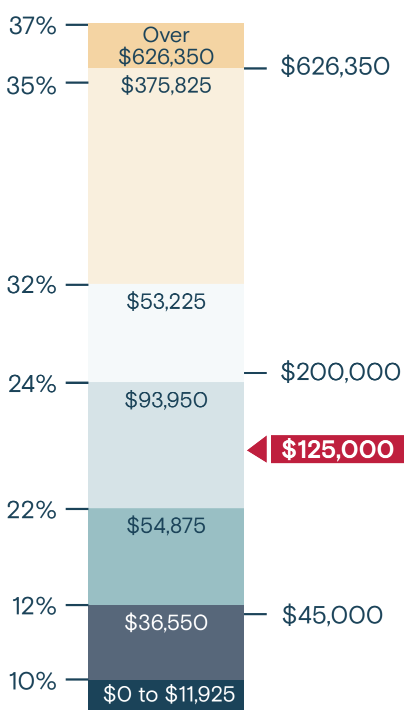
Provisions from the Tax Cuts and Jobs Act (TCJA) that relate directly to individual income tax rates are set to expire on Dec. 31, 2025.[1] Unless some or all of the provisions are extended, tax rates and brackets will revert to what they were in 2017—which could mean taxpayers like you could end up paying more taxes.

The impact of increased marginal rates and compressed brackets

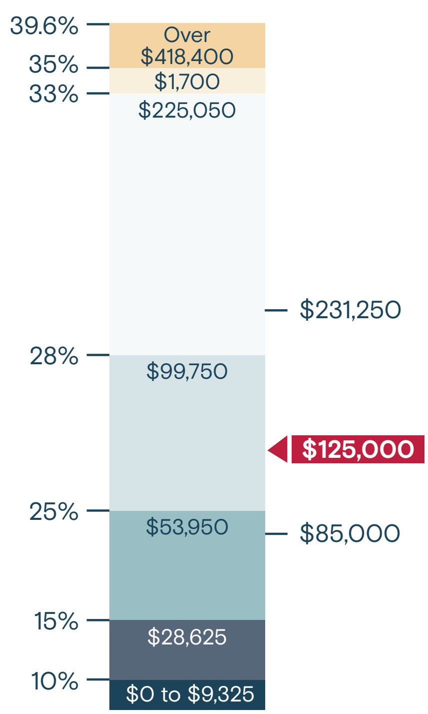
The first step to making the most of the TCJA tax benefits before they sunset is to understand your current tax bracket and associated marginal tax rate, versus the tax bracket and rate you may be subject to in the future.

Why is this important? If you plan to retire after 2025 and rely on taxable income, you could end up owing more in taxes.

2025 Marginal Income Tax Rates
(single)



2017 Marginal Income Tax Rates
(single)



How this could work

In 2025, a single filer with taxable income of $125,000 will be in the 24% tax bracket.

In 2026—after tax rates revert to what they were in 2017—the same individual earning the same amount will be in the 28% tax bracket (not adjusted for inflation).

Some strategies that may help reduce the impact

Now may be the time to talk to your Thrivent financial advisor and accountant to see if it makes sense to consider a tax reduction strategy that could provide more tax-efficiency, now and in the future.

"Live-on" money

Converting to a Roth IRA

A Roth IRA conversion happens when you take part or all of a traditional IRA and move it into a new Roth IRA. You'll need to pay taxes on the converted amount at that time, and any future contributions you make to the new Roth IRA will not be deductible on your taxes.[2, 3]

Key benefits of a Roth IRA include:

- Not having to pay taxes when you withdraw the funds in retirement.[4]
- No required minimum distributions (RMDs).

Hypothetical example: $25,000 annual Roth IRA conversion for Michael

	2025	2026
Conversion amount	$25,000	
Marginal tax bracket	22%	25%
Estimated taxes owed	$5,500	$6,250
Net amount	$19,500	$18,750
Potential tax savings	**$750**	

Opportunity: By converting to a Roth IRA now, the money Michael saved from taxes owed can be repurposed or invested to allow for potentially greater growth for future tax-free income.

"Leave-on" money

Taking more income this year

Another way to take advantage of the current lower tax rates is to start taking distributions from an IRA or other taxable asset now.

If you don't need that money today, placing it in an income tax-free position—such as life insurance[5]—will give you more flexibility in the future. If it turns out that you never need the income, it could also provide an income tax-free benefit to your heirs.[6]

Hypothetical example: $15,000 distribution for Angela

	2025	2026
Distribution amount	$15,000	
Marginal tax bracket	24%	28%
Estimated taxes owed	$3,600	$4,200
Net amount	$11,400	$10,800
Potential tax savings	**$600**	

Opportunity: If Angela starts taking annual distributions now, the money saved in taxes owed can be repositioned into a life insurance policy as an annual premium, which may provide a leveraged, income tax-free death benefit to their heirs.

[1]H.R.1—An Act to Provide for Reconciliation Pursuant to Titles II and V of the Concurrent Resolution on the Budget for Fiscal Year 2018, 115th Congress (2017–2018), Dec. 22, 2017, congress.gov/bill/115th-congress/house-bill/1/text.

[2]Only Roth IRA contributions would not be deductible. Deductible contributions can still be made to a traditional IRA.

[3]State tax rules may differ from federal rules governing the tax treatment of Roth IRAs and there may be conflicts between federal and state tax treatment of IRA conversions. Consult your tax professional for your state's tax rules.

[4]Only converted amounts are tax-free until the Roth IRA has been active for five years, at which time earnings would also be tax-free.

[5]Provided the contract is not a modified endowment contract (MEC) and prior loans and withdrawals have not exceeded the investment in the contract. A policy is considered a MEC when premiums paid into it exceed certain Internal Revenue Code (IRC) limitations. When this happens, the policy loses some of its tax advantages, and any distributions taken may then be taxable.

In addition, loans and surrenders will decrease the death proceeds and the value available to pay insurance costs, which may cause the contract to terminate without value. Surrenders may generate an income-tax liability and charges may apply. A significant taxable event can occur if a contract terminates with outstanding debt. Clients should contact their tax advisor for further details. Loaned values may accumulate at a lower rate than unloaned values.

[6]Under current tax law [IRC Sec. 101(a)(1)], death proceeds are generally excludable from the beneficiary's gross income. However, death proceeds may be subject to state and federal estate and/or inheritance tax.

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