Key takeaways

New 2024 income tax brackets and a higher standard deduction may mean tax cuts for many Americans.

Plus, there's good news for savers: higher contribution limits for 401(k)s, IRAs, and HSAs.

If your income hasn't kept pace with inflation this year, you may soon get some financial relief in the form of a tax cut.

The Internal Revenue Service (IRS) has released adjustments to tax brackets for 2024, adding thousands of dollars to most marginal tax brackets, and potentially protecting more of your income from taxes next year. The 5.4% adjustment is lower than the 7.1% increase for 2023, but still one of the highest in years, and higher than the current rate of inflation.

Additionally, the standard deduction will rise. For married couples the bump up is $1,500 to $29,200. For single filers, it's an increase of $750 to $14,600. The adjustment reflects inflation through October 2023, and if your income didn't quite keep up with continuing price increases on everyday items from gas to groceries, the good news is you may find yourself with a bit more money after you settle your tax bill.

Why do tax brackets change?

The US has a progressive tax system, meaning as someone's income rises, it's taxed at a gradually increasing rate corresponding to 7 brackets, which rise like a set of steps. Every year the IRS announces changes to the tax brackets. Those changes are pegged to inflation, and the adjustments occur at roughly the same time the federal government makes changes to Social Security payments through the cost-of-living adjustment (COLA).

Marginal tax brackets

	2023		2024	
RATE	SINGLE FILER	MARRIED FILING JOINTLY	SINGLE FILER	MARRIED FILING JOINTLY
37%	>$578,125	>$693,750	>$609,350	>$731,200
35%	>$231,250	>$462,500	>$243,725	>$487,450
32%	>$182,100	>$364,200	>$191,950	>$383,900
24%	>$95,375	>$190,750	>$100,525	>$201,050
22%	>$44,725	>$89,450	>$47,150	>$94,300
12%	>$11,000	>$22,000	>$11,600	>$23,200
10%	≤$11,000	≤$22,000	≤$11,600	≤$23,200

Source: Internal Revenue Service

How the 2024 tax brackets might affect you

Here's how the changes might play out for an individual filer who earns $100,000 both in 2023 and 2024, and who takes the standard deduction in both years.

	2023	2024	TAX CUT
Income	$100,000.00	$100,000.00	
Single standard deduction	$13,850.00	$14,600.00	
Taxable income	$86,150.00	$85,400.00	
Taxes owed at 10%	$1,100.00	$1,160.00	
Taxes owed at 12%	$4,047.00	$4,266.00	
Taxes owed at 22%	$9,113.50	$8,415.00	
Taxes due	$14,261.00	$13,841.00	–$420.00

For illustrative purposes only. Does not consider state and local taxes. Example assumes the individual takes the standard deduction for single filers.

The $420 in savings is the result of the higher standard deduction, as well as a lower effective tax rate (the total percentage of income that is taxed.) As brackets widen, more of your taxable income is taxed at a lower rate.

While the changes affect everyone, they particularly have an impact on people whose income did not keep pace with inflation this year. Real weekly earnings decreased on average by 0.1% from September 2022 through September 2023, according to the US Department of Labor.[1]

Tactics to help manage tax bracket changes

There are 2 ways you can take deductions on your federal income tax return: You can itemize deductions or use the standard deduction. The standard deduction is a dollar amount preset by the IRS. Itemizing means adding up all the deductions you may qualify for, up to a certain limit that could be higher than the standard deduction.

- The higher standard deduction and the new tax brackets next year mean it may be better for more people to take the standard deduction. For example, if you itemized last year and your itemizations this year will be less than the higher $29,200 standard deduction for married couples, or $14,600 for single people, switching to the standard deduction could make sense.

- If you're close to the standard deduction cutoff, additional charitable contributions could make itemizing more worthwhile. If that's the case, and donating to charity is one of your goals, you could also consider a "bunching" strategy for 2023. That essentially entails combining all your charitable deductions for several years in a single year, enabling you to exceed the standard deduction next year, and potentially dropping you into a lower tax bracket. The following year, while you may not make charitable donations, you'd still qualify for the standard deduction, which could save you thousands of dollars in taxes over several tax years, while still making the same total charitable donations.

- Finally, if you've been thinking about a Roth conversion, next year might be a good time to do one. The new tax rates, combined with the recent fluctuations in stock prices, may mean the money you convert from a traditional IRA to a Roth could be taxed at a lower rate. A conversion for tax year 2024 might be particularly helpful for people who expect their tax rate to be higher in future years.

Important to know

To track inflation, the IRS uses an index called the Chained Consumer Price Index, which tends to rise more slowly than the standard Consumer Price Index.

An opportunity to save more in a 401(k)

In addition to tax savings, the IRS made adjustments to numerous other parts of the tax code that have an impact on retirement saving and more.

People who have access to a 401(k) plan through work can consider putting more money away next year, as the IRS also announced annual contribution limit increases for 2024. Participants in such plans can contribute $23,000 (pretax or to a Roth depending on plan rules), up from $22,500 in 2023. People 50 and older can make catch-up contributions of $7,500, the same as 2023.

2024 IRA contribution limits

IRA contribution limits have also increased to $7,000 for 2024, compared to $6,500 for 2023. (Catch-up contributions also did not change.)

Contributions to a traditional 401(k) or a traditional IRA can reduce your taxable income, and deferred amounts are not taxed until you begin withdrawals in retirement.

2024 HSA contribution limits

Lastly, the IRS also increased health savings account (HSA) annual contribution limits. The inflation adjustment lets individuals save $4,150 in 2024, up from $3,850 in 2023. For family coverage, contribution limits for next year have jumped to $8,300 from $7,750. Those 55 and older can contribute an additional $1,000 as a catch-up contribution, which is unchanged from 2023. HSAs can help people save for rising health care costs now and in retirement.

All in all, the tax changes for 2024 should help offset some of the pain from continuing inflation and help people save for retirement. To make the most of these changes as you plan for the end of 2023 and beyond, consider working with a tax professional.

Key takeaways

- Contributions to a Roth IRA are made on an after-tax basis. You can withdraw your contributions at any time and any potential earnings can be withdrawn tax-free[1] in retirement.
- You aren't required to take distributions from a Roth IRA as you are with a traditional IRA.[2]
- Contributing to a Roth IRA gives you tax flexibility in retirement.

Do you want to help lower your taxes in retirement? A Roth IRA, with its tax-free growth potential and tax-free withdrawals for you and your heirs, is a way you may be able to do just that (as long as certain requirements are met).[1] And those are just a couple of the benefits of a Roth IRA.

One important note: Not everyone can contribute to a Roth IRA, because of IRS income limits. If your income is over the limits, you still may be able to have a Roth IRA by converting existing money in a traditional IRA or other retirement savings accounts. (See the section "If you earn too much to contribute to a Roth IRA," at the end of this article.)

1. Money can grow tax-free; withdrawals are tax-free too

You contribute money that has already been taxed (after-tax dollars) to a Roth IRA. There's no tax deduction as there can be with a traditional IRA. But, any growth or earnings from the investments in the account—and any distributions you take out in retirement—are free from federal taxes (and may also be free from state and local taxes too), with a few conditions.[1]

2. There are no required minimum distributions

Roth IRAs do not have required minimum distributions (RMDs) for the original owner. Generally, traditional IRAs, 403(b)s, Roth accounts and traditional 401(k)s, and other employer-sponsored retirement savings plans do.[3] If you don't need your distributions for essential expenses, RMDs may be hard to keep track of. The RMDs have to be calculated and withdrawn each year, and may result in taxable income. Because a Roth IRA eliminates the need to take RMDs, it may also enable you to pass on more of your retirement savings to your heirs (see below).

3. Leave tax-free money to heirs

In many cases, a Roth IRA has legacy and estate planning benefits, but you need to consider the pros and cons—which can be subtle and complex. Be sure to consult an attorney or estate planning expert before attempting to use Roth IRAs as part of an estate plan. While RMDs are required for inherited Roth IRAs, as they are for inherited traditional IRAs, distributions from inherited Roth IRAs generally remain tax-free.

4. Tax flexibility in retirement

You've already paid the taxes on the contributions to a Roth IRA, so as long as you follow the rules, you get to take out your money tax-free. Mixing how you take withdrawals between your traditional IRAs and 401(k)s, or other qualified accounts, and Roth IRAs may enable you to better manage your overall income tax liability in retirement. You could, for example, take withdrawals from a traditional IRA until your taxable income reaches the top of a tax bracket, and then take additional money you need from a Roth IRA.

5. Help reduce or even avoid the Medicare surtax

A Roth IRA may potentially help limit your exposure to the Medicare surtax on net investment income. This is because qualified withdrawals from a Roth IRA don't count toward the modified adjusted gross income (MAGI) threshold that determines the surtax. RMDs from traditional (i.e., pre-tax) accounts such as a workplace retirement plan—like a traditional 401(k)—or a traditional IRA, are included in MAGI and do count toward the MAGI threshold for the surtax. So depending on your income in retirement, RMDs could expose you to the Medicare surtax, and using Roth accounts might help you avoid it.

6. Hedge against future tax hikes

Will tax rates rise in the future? There's no way to know for certain, but the top federal income tax rate remains far below its historical highs, and if you think it might go up again, a Roth IRA may make sense.

7. Use your contributions at any time

A Roth IRA enables you to take out 100% of what you have contributed at any time and for any reason, with no taxes or penalties. Only earnings and converted balances in the Roth IRA are subject to restrictions on withdrawals. Generally, withdrawals from a Roth IRA are considered to come from contributions first. Distributions from converted balances and earnings—which can be taxable and/or subject to penalties if the conditions are not met—begin only when all contributions have been withdrawn.

8. If you're older, you can continue to contribute as long as you work

As long as you have earned compensation, whether it is a regular paycheck or 1099 income for contract work, you can contribute to a Roth IRA—no matter how old you are. There is no age requirement for contributions, but you must be within the income limits in order to contribute to a Roth IRA.

Learn more on Fidelity.com: IRA contribution limits

9. If you're young, your income is likely to rise

Generally speaking, the younger you are, the greater the chance that your income will be higher when you retire than it is now. For instance, if you're under age 30, it's possible that your income and spending during retirement will be significantly higher than they are now, at the beginning of your career. And the greater the difference between your income now and your income in retirement, the more advantageous a Roth account can be.

If you earn too much to contribute to a Roth IRA

In order to contribute to a Roth IRA, you must have employment compensation, and there are also income limits. If your income (as measured by MAGI) is over the IRS limits, the only way you can take advantage of a Roth IRA is by converting money from an existing retirement account, such as a traditional IRA.[4] There is a cost, though. You'll generally need to pay taxes on what you convert, but any after-tax contributions to a traditional account will not be taxable. The rules are complex, so if you have made after-tax contributions to a traditional account and you're interested in conversion, be sure to consult with a tax advisor.

To learn more, read *Viewpoints* on Fidelity.com: Do you earn too much for a Roth IRA?

Picking a Roth IRA comes down to taxes

A Roth IRA may improve your tax picture—no matter how old you are. So it makes sense to take the time to see whether you would benefit from one.