Retirement Taxes After the 2025 Tax Law: What Changed and What to Do About It

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VIRIBUS WEALTH MANAGEMENT & PARTNERS℠

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The tax law signed in July 2025 (often called the "One Big Beautiful Bill Act") changed the rules many retirees and near-retirees plan around. Some changes are permanent, some expire after 2028, and a few apply only to people still working. As we head into year-end planning for 2026, here is what matters for Wabash Valley families, in plain English.

The short version

- **Today's tax brackets are now permanent.** The rates that were set to rise after 2025 won't. That takes away the "convert before taxes go up" deadline, but it doesn't make Roth planning less useful.

- **There's a new deduction for people 65 and older.** Up to $6,000 per person, for tax years 2025 through 2028, with income limits.
- **Overtime pay may be partly deductible.** For workers who earn overtime, a new deduction runs through 2028. That's a big deal for many refinery and trades households.
- **High earners' catch-up contributions are changing.** Starting in 2026, many people earning above about $150,000 must make their 401(k) catch-up contributions as Roth (after-tax).
- **The years between retiring and starting Social Security or required withdrawals are often the best tax-planning years you'll get.** Use them on purpose.

What changed, and who it affects

These are the provisions we're discussing most often with clients this year.

Provision	What it does	How long it lasts	Who it matters to most
Tax brackets (10% to 37%)	Keeps today's lower rates instead of letting them rise	Permanent	Nearly everyone
Standard deduction	About $16,100 single / $32,200 married filing jointly for 2026, adjusted for inflation	Permanent	Most retirees, who no longer itemize
Senior deduction	Extra deduction up to $6,000 per person age 65+; phases out above about $75,000 (single) / $150,000 (joint) of income	Tax years 2025 to 2028	Retirees with moderate incomes
Overtime deduction	Deduct the "extra half" of qualified overtime pay, up to $12,500 (single) / $25,000 (joint); phases out at higher incomes	Tax years 2025 to 2028	Hourly workers: refinery, trades, public safety

Provision	What it does	How long it lasts	Who it matters to most
State and local tax (SALT) cap	Raised from $10,000 to $40,000, reduced for incomes above about $500,000	Through 2029, then back to $10,000	Homeowners with higher property and income taxes
Estate tax exemption	$15 million per person, adjusted for inflation	Permanent	Families with larger estates, farms, or businesses

Figures are approximate and based on the law as enacted in July 2025 and IRS inflation adjustments announced for 2026. Confirm current amounts with your tax professional.

If you're still working

The overtime deduction. If you're paid hourly and work overtime, you may be able to deduct the premium portion of that pay. For time-and-a-half, that's the "half," not the whole overtime check. The deduction lowers your federal income tax but not Social Security or Medicare taxes. Employers are expected to report qualified overtime separately, so check your W-2 and year-end pay stubs. Turnarounds and long outage seasons can make this worth real money.

The new Roth catch-up rule (starting 2026). Workers age 50 and over can add extra "catch-up" money to their 401(k) or 403(b). Beginning in 2026, if your prior-year wages from that employer were above about $150,000, those catch-up dollars must go in as Roth. That means no tax deduction now, but tax-free withdrawals later if the rules are met.

For 2026, the general 401(k) limit is about $24,500, the age-50+ catch-up is about $8,000, and workers aged 60 to 63 may be able to contribute a larger catch-up of about $11,250. If your plan doesn't offer a Roth option, it may not allow catch-up contributions for affected workers at all. Ask your HR or benefits office how your plan is handling this.

What to do now: Review your 2026 paychecks to confirm contributions are going where you expect, and revisit your withholding if your take-home pay changed.

The "gap years": your best window for Roth conversions

A Roth conversion means moving money from a traditional IRA or 401(k) into a Roth IRA and paying the income tax now. In return, future growth and qualified withdrawals can be tax-free, and Roth IRAs have no required withdrawals for the original owner.

The question is never just "should I convert?" It's "how much, and in which years?" For many people, the answer is the gap years.

Here's how retirement income often unfolds:

1. **Working years.** Paychecks fill up the lower tax brackets. Conversions here are usually expensive.
2. **Gap years (retirement to Social Security or RMDs).** Paychecks stop. If you're living on savings or a lump sum, taxable income can drop sharply. This is often the cheapest time to convert.
3. **Social Security begins.** Up to 85% of benefits can become taxable, filling brackets again.
4. **Required minimum distributions begin.** At age 73 (75 for those born in 1960 or later), the IRS requires withdrawals from traditional accounts, whether you need the money or not.

Filling the lower brackets with conversions during stage 2 can reduce the size of future required withdrawals and the taxes on them. It can also leave a surviving spouse, who will file as single, in a better spot.

What to watch when converting:

- **Medicare premiums (IRMAA).** Medicare looks at your income from two years earlier. A big conversion at 63 can raise your Part B and Part D premiums at 65.
- **The senior deduction.** A conversion that pushes income above the phase-out can shrink the new $6,000 deduction through 2028.
- **Health insurance before 65.** If you buy coverage on the marketplace, extra income can reduce premium subsidies. Check current rules before converting.
- **Paying the tax.** Conversions work best when the tax is paid from money outside the IRA.
- **No do-overs.** Conversions can't be undone. We plan them carefully and usually spread them over several years.

Common misunderstandings we're hearing

"Social Security isn't taxed anymore." Not quite. The rules for taxing Social Security benefits didn't change. The new senior deduction lowers taxable income for many retirees, which can offset some or all of the tax, but it isn't an exemption and it ends after 2028 unless Congress extends it.

"All my overtime is tax-free now." Only the premium portion of qualified overtime counts, it's capped, it phases out at higher incomes, and it still has Social Security and Medicare taxes withheld.

"Since the brackets are permanent, Roth conversions don't matter." The deadline went away; the logic didn't. Required withdrawals, Medicare premiums, and a surviving spouse's single-filer brackets are still reasons to plan. And "permanent" in tax law only means until Congress changes it.

"I can deal with this at tax time." Most of these decisions, like conversions, contribution choices, and charitable giving strategies, must happen by December 31. April is too late.

How Viribus can help

We don't prepare tax returns, and we don't replace your CPA. What we do is look ahead: map out your income year by year, spot the low-tax windows, and build a plan your CPA can review and file.

A year-end tax-aware review with us can include a multi-year income projection, a Roth conversion analysis sized to your brackets and Medicare thresholds, a check on how your 2026 contributions are set up, and coordination with your tax professional before December 31. We'll explain the reasons behind each recommendation and any costs involved.

Next step: Call our Terre Haute office at (812) 232-0304 or visit viribuswm.com to schedule a year-end review. Bring last year's tax return and a recent pay stub or retirement statement.

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