



CARDINAL ADVISORS

Income Tax Planning Dilemma - Age 68

In the video titled "Income Tax Planning Dilemma-Age 68" Hans and Tom use Ed Slott's charts to discuss tax planning.

INCOME TAX PLANNING DILEMMA-AGE 68											
S.S.	FEDERAL ORDINARY TAX				CALIFORNIA STATE INCOME TAX				INCOME		
	MARRIED FILING JOINT		SINGLE		SINGLE		MARRIED				
	10% 0-24,800	10% 0-12,400	0	11,079 0.00 1.00%	0	22,158 0.00 1.00%					
	12% 24,801-100,800	12% 12,401-50,400	11,079	26,264 110.79 2.00%	22,158	52,528 221.58 2.00%					
	22% 100,801-211,400	22% 50,401-105,700	26,264	41,452 414.49 4.00%	52,528	82,904 828.98 4.00%					
	24% 211,401-403,550	24% 105,701-201,775	41,452	57,542 1022.01 6.00%	82,904	115,084 2044.02 6.00%					
	32% 403,551-512,450	32% 201,776-256,225	57,542	72,724 1,987.41 8.00%	115,084	145,448 3,974.82 8.00%					
	35% 512,451-768,700	35% 256,226-640,600	72,724	371,479 3,201.97 9.30%	145,448	742,958 6,403.94 9.30%					
	37% 768,700+	37% 640,600+	371,479	445,771 30,986.19 10.30%	742,958	891,542 61,972.37 10.30%					
			445,771	742,953 38,638.27 11.30%	891,542	1,485,906 77,276.52 11.30%					
			742,953	AND OVER 72,219.84 12.30%	1,485,906	AND OVER 144,439.65 12.30%					
MED	FEDERAL CAPITAL GAINS TAX								ESTATE		
	MARRIED FILING JOINT-CG		SINGLE-CG								
	0% 0-98,899	0% 0-49,449									
	15% 98,900-613,699	15% 49,450-545,499									
	20% 613,700+	20% 545,500+									
LTC	NIIT- NET INVESTMENT INCOME TAX										
	MAGI THRESHOLDS FOR 3.8% SURTAX										
	MARRIED FILING JOINT		INDIVIDUALS								
	250,000		200,000								
IRA/401K	WHAT WILL BE CONSIDERED INVESTMENT INCOME				NOT INVESTMENT INCOME						
	INTEREST, DIVIDENDS, CAPITAL GAINS (LONG & SHORT-INCLUDING THE GAIN ON THE SALE OF INVESTMENT REAL ESTATE & SECOND HOMES)				WAGES & SELF-EMPLOYMENT INCOME						
	ANNUITIES (BUT NOT ANNUITIES IN IRAs OR COMPANY PLANS)				ACTIVE TRADE OR BUSINESS INCOME (INCLUDING INTEREST, DIVIDENDS, CAPITAL GAINS)						
	ROYALTY INCOME				DISTRIBUTIONS FROM IRAs, ROTH IRAs, AND COMPANY PLANS -INCLUDING NET UNREALIZED APPRECIATION						
	PASSIVE RENTAL INCOME & OTHER PASSIVE ACTIVITY INCOME				EXCLUDED GAIN FROM THE SALE OF A PRINCIPAL RESIDENCE						
					MUNICIPAL BOND INTEREST						
					PROCEEDS OF LIFE INSURANCE POLICIES						
					SOCIAL SECURITY & VETERANS' BENEFITS						
					GAINS ON THE SALE OF AN ACTIVE INTEREST IN A PARTNERSHIP OR S CORPORATION						
					TAXABLE INCOME FROM ITEMS THAT ARE NOT INVESTMENT INCOME CAN PUSH TAXPAYERS OVER THE INCOME THRESHOLD AND CAUSE INVESTMENT INCOME TO BE SUBJECT TO THE 3.8% SURTAX						

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2026 Medicare Income Planning

Part B and D Charges

The Medicare health care system is largely government funded, but individuals pay premiums to participate in two portions of it.

Medicare charges premiums to participants in Medicare Part B, covering doctor visits, and Part D, the prescription drug benefit. In 2026, the basic premium for Part B is \$202.90 per month. The premium for Part D varies by plan.

The standard premiums for these are increased by surcharges imposed on upper-income individuals, those with **Modified Adjusted Gross Income (MAGI)** exceeding \$109,000 on an individual return or \$218,000 on a joint return.

In 2026, the largest premium surcharges apply to persons with MAGI of \$500,000 or over on a single return or \$750,000 or over filing jointly.

The extra amount that higher-income individuals must pay is called an **Income Related Monthly Adjustment Amount (IRMAA)**. **The first five IRMAA** tiers for Medicare premium surcharges are adjusted for inflation each year. This could result in reduced Medicare premiums for some. The IRMAA tier for individuals earning \$500,000 or more (or married couples with MAGI of \$750,000 or more) will not be adjusted until 2028.

Combination Chart - Parts B and D

2026 IRMAA MONTHLY SURCHARGES FOR MEDICARE PART B AND PART D (Based on 2024 MAGI)

Filing Single	Married filing joint	IRMAA Surcharge Part B	Total Premium Part B	IRMAA Surcharge Part D	Total of surcharges Part B & D
\$109,000 or less	\$218,000 or less	\$0.00	\$202.90	\$0.00	\$0.00
Over \$109,000 to \$137,000	Over \$218,000 to \$274,000	\$81.20	\$284.10	\$14.50	\$95.70
Over \$137,000 to \$171,000	Over \$274,000 to \$342,000	\$202.90	\$405.80	\$37.50	\$240.40
Over \$171,000 to \$205,000	Over \$342,000 to \$410,000	\$324.60	\$527.50	\$60.40	\$385.00
Over \$205,000 to less than \$500,000	Over \$410,000 to less than \$750,000	\$446.30	\$649.20	\$83.30	\$529.60
\$500,000 and above	\$750,000 and above	\$487.00	\$689.90	\$91.00	\$578.00

IRMAA surcharges apply on a “cliff” basis. Reaching the first dollar of an IRMAA income level causes the full corresponding surcharge to apply to all premiums paid for the year.

Example:

If Bob has MAGI of as much as \$109,000 on his single return, he'll owe no surcharge. But if his income reaches \$109,001, then a monthly surcharge of \$81.20 for Part B plus \$14.50 for Part D, or \$95.70 total, will apply for all 12 months of the year. Bob's \$1 of additional income increases premium cost by \$1,148.40 for the year.

Medicare Planning Points

Medicare premium surcharges are imposed on individuals with MAGI over \$109,000 on a single tax return or \$218,000 on a joint return.

2-Year Lookback

For IRMAA purposes, MAGI is defined as Adjusted Gross Income (AGI) plus tax-exempt interest and untaxed foreign income. Medicare uses the MAGI reported on the federal tax return from two years ago. For example, to determine whether someone will pay higher premiums for 2026, Medicare uses **2024** MAGI.

Similarly, the tax return filed for **2026** will be used to calculate IRMAA surcharges for the year **2028**.

RMD Effect

Address required minimum distribution (RMD) requirements well in advance of the required beginning date, explaining how RMDs are included in income for Medicare Part B and Part D costs two years down the road. RMDs are not required from Roth IRAs during the Roth IRA owner's lifetime.

Don't forget that this includes older beneficiaries who are also subject to RMDs on IRAs they have inherited.

Income Reduction Strategies

The key to reducing Medicare surcharges is to reduce MAGI. Items like itemized deductions won't do that. They only reduce **taxable** income.

Check the tax return during the year to see if reported MAGI is near one of the threshold amounts. If income is close enough, plan to realize income and deductions to keep MAGI below the nearest threshold.

Roth Conversions

A Roth IRA conversion can be useful in minimizing future IRMAA surcharges as distributions from the Roth IRA can be tax free, reducing MAGI.

To avoid a current income spike from a Roth conversion, consider making a series of partial conversions over a number of years to avoid pushing income into higher tax brackets. This is a strategy that requires long-term advance planning.

For those in early retirement, consider the benefit of converting before the conversion income would impact Medicare costs.

Converting later may still be an effective strategy. A Roth conversion would negatively affect MAGI for Medicare purposes, but only for one year. It may make sense to take the hit in one year in exchange for no RMD concerns in future years.

HSAs (Health Savings Accounts)

Younger people may want to consider funding a Health Savings Account (HSA) rather than an IRA if they have a choice. They can make deductible HSA contributions in their working years, use other funds to pay medical expenses, and then they can access their HSA tax- and penalty-free to pay for qualified medical expenses in retirement. These distributions would not be included in MAGI for Medicare purposes the way RMDs and other traditional IRA distributions are.

QCDs (Qualified Charitable Distributions)

As a result of the tax law's increased standard deduction amounts, many are no longer deducting charitable contributions. QCDs can help restore charitable tax benefits by having those QCDs excluded from income. The exclusion from income will help to avoid Medicare premium increases.

With a QCD, an IRA owner (or beneficiary) who is age 70½ or over can transfer up to \$111,000 (for 2026) annually from their IRA to a charity tax-free.

A QCD can count towards the RMD and is not included in MAGI for determining Medicare costs. Keeping the RMD amount out of MAGI can result in big savings. This is not the case if an IRA owner takes their RMD and then donates to charity and claims a charitable deduction (if they can at all). With that approach, the RMD would still be included in MAGI.

For those taking RMDs, consider how a QCD could help to save on Medicare costs.

Other strategies that can be used to manage MAGI to minimize Medicare surcharges include:

- Timing investment gains and other income by accelerating them onto a tax return for a year before IRMAA calculations occur or deferring them to a year when income is expected to be lower and there may be offsetting losses.
- Obtaining spending funds from tax-free sources. For instance, one may borrow against a life insurance policy rather than take a taxable distribution from a retirement plan or use tax-free proceeds from the sale of a principal residence (as much as \$250,000, or \$500,000 on a joint return).
- Using a home equity conversion mortgage (HECM - reverse mortgage line of credit) to provide a source of tax-free funds with no corresponding mortgage payment expense, to keep income below the Medicare surcharge threshold amounts.

When Income Falls

If there has been a major life-changing event that results in a large reduction in MAGI, an individual may request to use their MAGI for a more recent year. If an individual disagrees with the decision about their Medicare costs, they have the right to appeal.

Do this by submitting Form SSA-44, "*Medicare Income-Related Monthly Adjustment Amount - Life-Changing Event*," to the Social Security Administration.

The end of employment is a qualifying "life-changing event" that should be considered for every client who retires at age 65 or later. If an IRMAA surcharge will result from high salary income reported on a return filed two years earlier, but that salary no longer exists, relief from the surcharge may be readily available.

2025 California Tax Rate Schedules



To e-file and eliminate the math, go to ftb.ca.gov. To figure your tax online, go to ftb.ca.gov/tax-rates.

Use only if your taxable income on Form 540, line 19 is more than \$100,000. If \$100,000 or less, use the Tax Table.

	If the amount on Form 540, line 19 is		Enter on Form 540, line 31		of the
	over –	but not over –			amount over–
Schedule X – Use if your filing status is Single or Married/RDP Filing Separately	\$ 0	\$ 11,079	\$ 0.00	+ 1.00%	\$ 0
	11,079	26,264	110.79	+ 2.00%	11,079
	26,264	41,452	414.49	+ 4.00%	26,264
	41,452	57,542	1,022.01	+ 6.00%	41,452
	57,542	72,724	1,987.41	+ 8.00%	57,542
	72,724	371,479	3,201.97	+ 9.30%	72,724
	371,479	445,771	30,986.19	+ 10.30%	371,479
	445,771	742,953	38,638.27	+ 11.30%	445,771
	742,953	AND OVER	72,219.84	+ 12.30%	742,953

	If the amount on Form 540, line 19 is		Enter on Form 540, line 31		of the
	over –	but not over –			amount over–
Schedule Y – Use if your filing status is Married/RDP Filing Jointly or Qualifying Surviving Spouse/RDP	\$ 0	\$ 22,158	\$ 0.00	+ 1.00%	\$ 0
	22,158	52,528	221.58	+ 2.00%	22,158
	52,528	82,904	828.98	+ 4.00%	52,528
	82,904	115,084	2,044.02	+ 6.00%	82,904
	115,084	145,448	3,974.82	+ 8.00%	115,084
	145,448	742,958	6,403.94	+ 9.30%	145,448
	742,958	891,542	61,972.37	+ 10.30%	742,958
	891,542	1,485,906	77,276.52	+ 11.30%	891,542
	1,485,906	AND OVER	144,439.65	+ 12.30%	1,485,906

	If the amount on Form 540, line 19 is		Enter on Form 540, line 31		of the
	over –	but not over –			amount over–
Schedule Z – Use if your filing status is Head of Household	\$ 0	\$ 22,173	\$ 0.00	+ 1.00%	\$ 0
	22,173	52,530	221.73	+ 2.00%	22,173
	52,530	67,716	828.87	+ 4.00%	52,530
	67,716	83,805	1,436.31	+ 6.00%	67,716
	83,805	98,990	2,401.65	+ 8.00%	83,805
	98,990	505,208	3,616.45	+ 9.30%	98,990
	505,208	606,251	41,394.72	+ 10.30%	505,208
	606,251	1,010,417	51,802.15	+ 11.30%	606,251
	1,010,417	AND OVER	97,472.91	+ 12.30%	1,010,417

How to Figure Tax Using the 2025 California Tax Rate Schedules

Example: Chris and Pat Smith are filing a joint tax return using Form 540. Their taxable income on Form 540, line 19 is \$125,000.

Step 1: Using Schedule Y, they find the taxable income range that includes their taxable income of \$125,000.

	Example	Your Income
Step 2: They subtract the amount at the beginning of their range from their taxable income	$\begin{array}{r} \$ 125,000 \\ - 115,084 \\ \hline \$ 9,916 \end{array}$	$\begin{array}{r} \$ \\ - \\ \hline \end{array}$
Step 3: They multiply the result from Step 2 by the percentage for their range.	$\begin{array}{r} \$ 9,916 \\ \times .08 \\ \hline \$ 793.28 \end{array}$	$\begin{array}{r} \$ \\ \times \\ \hline \end{array}$
Step 4: They round the amount from Step 3 to two decimals (if necessary) and add it to the tax amount for their income range. After rounding the result, they will enter \$4,768 on Form 540, line 31.	$\begin{array}{r} \$3,974.82 \\ + 793.28 \\ \hline \$4,768.10 \end{array}$	$\begin{array}{r} \$ \\ + \\ \hline \end{array}$

2026 Tax Planning for Investment Income

3.8% Surtax on Net Investment Income

What Will Be Considered Investment Income?

Investment Income

Interest, Dividends, Capital Gains (long and short - including the gain on the sale of investment real estate and second homes)
Annuities (but not annuities in IRAs or company plans)
Royalty Income
Passive Rental Income and Other Passive Activity Income

NOT Investment Income

Wages and Self-Employment Income
Active Trade or Business Income (including interest, dividends, capital gains)
Distributions from IRAs, Roth IRAs, and Company Plans – Including Net Unrealized Appreciation
Excluded Gain from the Sale of a Principal Residence
Municipal Bond Interest
Proceeds of Life Insurance Policies
Social Security and Veterans' Benefits
Gains on the Sale of an Active Interest in a Partnership or S Corporation

Taxable income from items that are **NOT** investment income can push taxpayers over the income threshold and cause investment income to be subject to the 3.8% surtax.

MAGI Thresholds for 3.8% Surtax

Married Filing Joint	\$ 250,000
Individuals	\$ 200,000
Married Filing Separate	\$ 125,000
Trusts and Estates	\$ 16,000*

* Trusts are hit hard – The 3.8% surtax kicks in at much lower income levels for trusts. The threshold for trusts and estates is the amount at which the top trust tax bracket takes effect. This amount is **\$16,000** in **2026**. All other threshold amounts are NOT indexed for inflation.

MAGI (Modified Adjusted Gross Income)

The 3.8% surtax applies to net investment income when MAGI exceeds these threshold amounts.

For this purpose, MAGI is a taxpayer's regular AGI, plus any foreign income excluded from AGI.

The 3.8% Medicare tax is imposed on the lesser of (1) net investment income or (2) the amount of MAGI over the threshold amount.

Taxpayers with income below these MAGI levels will not be subject to the tax.

– Tax Planning Points –

- 1 - The 3.8% tax is **in addition** to the tax rates for high income individuals. Those at the top brackets can have long-term capital gains and dividends taxed at 23.8% and other investment income taxed at 40.8%.
- 2 - There is an additional 0.9% Medicare tax on wages and self-employment income over the threshold amounts.
- 3 - IRA and plan distributions (including sales of employer securities with net unrealized appreciation) are exempt from the 3.8% surtax on net investment income, but taxable distributions from these accounts can push income over the threshold amounts causing other investment income to be subject to the tax.
- 4 - Roth conversions will increase current income, but future tax-free Roth distributions will be more valuable as a means to eliminate taxable income and required minimum distributions from traditional IRAs.
- 5 - The 3.8% surtax is subject to the estimated tax provisions.
- 6 - Taxpayers who have named a discretionary (accumulation) trust as their IRA beneficiary should consider Roth conversions to avoid potential harsh trust tax rates at low trust income levels. After the SECURE Act, the 10-year payout rule will apply to most trusts named as the IRA beneficiary. The inherited IRA funds will have to be paid out to the trust within the 10 years. Any funds retained in the trust will be subject to the high trust tax rates, including the 3.8% tax on trust net investment income that applies above the MAGI threshold (only **\$16,000 for 2026**).
- 7 - Salary deferrals (401(k), 403(b), etc.) can reduce MAGI for the 3.8% surtax but cannot reduce earned income for the 0.9% additional Medicare tax.

2026 Tax Planning

Taxable Income Brackets for 2026 Ordinary Income Tax Rates

Marginal Tax Rate	Married Filing Joint	Single
10%	\$0 - \$24,800	\$0 - \$12,400
12%	\$24,801 - \$100,800	\$12,401 - \$50,400
22%	\$100,801 - \$211,400	\$50,401 - \$105,700
24%	\$211,401 - \$403,550	\$105,701 - \$201,775
32%	\$403,551 - \$512,450	\$201,776 - \$256,225
35%	\$512,451 - \$768,700	\$256,226 - \$640,600
37%*	Over \$768,700	Over \$640,600

* The top rate is effectively 40.8% for those subject to the 3.8% Medicare surtax on net investment income (those with MAGI over the thresholds of \$250,000 joint filers/\$200,000 single filers).

2026 Trust Tax Rates

Ordinary Income Tax		Capital Gain Rates	
10%	\$0 - \$3,300	0%	\$0 - \$3,300
24%	\$3,301 - \$11,700	15%	\$3,301 - \$16,250
35%	\$11,701 - \$16,000	20%	Over \$16,250
37%	Over \$16,000		

Trust Tax Rates – Distributions from inherited IRAs that exceed **\$16,000** and are made to and retained in discretionary trusts will be subject to the top 37% rate. After the SECURE Act, inherited IRA funds will have to be paid out to most of these trusts under the 10-year rule, accelerating trust taxes. Roth conversions during the IRA owner's life become more valuable if the IRA beneficiary is a trust.

Taxable Income Brackets for 2026 Long Term Capital Gains and Qualified Dividends Tax

Long Term Capital Gains Rate	Married Filing Joint	Single
0%	\$0 - \$98,900	\$0 - \$49,450
15%*	\$98,901 - \$613,700	\$49,451 - \$545,500
20%**	Over \$613,700	Over \$545,500

*The 15% rate is effectively 18.8% for those subject to the 3.8% Medicare surtax on net investment income.

**The top rate is effectively 23.8% for those subject to the 3.8% Medicare surtax on net investment income.

2026 Transfer Taxes

Transfer Tax	Exemption*	Maximum Rate
Estate, Gift, GST Tax	\$15,000,000	40%

*The estate and gift exemptions are portable. The unused amount can be transferred to a surviving spouse. The GST exemption is NOT portable.

Annual Gift Tax Exclusion \$19,000

Qualified Business Income (QBI) Deduction

20% Deduction Phase-Out Ranges

\$403,500 - \$553,500 - Married Joint
\$201,750 - \$276,750 - Single

Standard Deductions

Married-Joint	Single	Head of Household
\$32,200	\$16,100	\$24,150
Extra Standard Deduction for Age 65 or Blind		
\$1,650 (married-joint)	\$2,050 (single)	

\$6,000 Deduction for Seniors

\$6,000 addition to the standard deduction for seniors aged 65 and older for years 2025-2028. This is per person, so a married couple could deduct up to \$12,000 if each spouse is aged 65 or over. This is in addition to the regular standard deduction AND the extra deduction for those aged 65 or blind. Available to seniors who itemize.

The deduction phases out beginning with modified adjusted gross incomes of \$75,000 for individuals and \$150,000 for married filing jointly. It phases out completely at \$175,000 / \$250,000.

SALT (State and Local Tax) Deductions for Itemizers

The SALT deduction is increased to \$40,000, effective for 2025-2029, with a 1% increase each year. So, it is \$40,400 for 2026. In addition, some pass-through business owners can work around the limitation and get unlimited SALT deductions.

For 2025, the deduction began phasing out at \$500,000 (for both single and married), and phased out completely at \$600,000, reverting to a maximum \$10,000 deduction. The \$500,000 threshold phase-out increases 1% each year, so it is \$505,000 for 2026. In 2026, a taxpayer with an income at or over \$606,333 would lose \$30,400 of the SALT deduction.

Qualified Charitable Distributions

Available only to IRA owners and IRA beneficiaries who are 70½ or older. The annual QCD limit for 2026 is \$111,000 per IRA owner, **not** per IRA account. For 2026, the limit for a QCD to a split interest entity is \$55,000. QCDs are more valuable due to the larger number of taxpayers that are using the increased standard deduction.