

Your Retirement in Focus

January 25, 2018

2018 Tax Reform May Help You Save More in Your 401(k)

On January 11, 2018, the Internal Revenue Service released the income-tax withholding tables for 2018 reflecting changes made by the tax reform legislation enacted last month. Employers will begin using the updated withholding rates by February 15, 2018.



According to the IRS, once employers implement the new 2018 tax tables, many employees will begin to see increases in their paychecks to reflect the new law.

The table below from Yahoo Finance shows how federal tax withholdings on a semi-monthly paycheck for a married worker are likely to change from 2017 to 2018.*

Annual income	Semi-monthly gross pay	Federal tax withheld, 2017	Federal tax withheld, 2018	Net increase in take-home pay
\$10,000	\$417	\$6	\$0	\$6
\$25,000	\$1,042	\$68	\$56	\$12
\$40,000	\$1,667	\$157	\$126	\$31
\$60,000	\$2,500	\$282	\$226	\$56
\$80,000	\$3,333	\$407	\$326	\$81
\$100,000	\$4,167	\$596	\$472	\$124
\$125,000	\$5,208	\$857	\$702	\$155
\$150,000	\$6,250	\$1,117	\$931	\$187
\$250,000	\$10,417	\$2,286	\$1,909	\$377
\$500,000	\$20,833	\$5,825	\$5,097	\$728
\$1,000,000	\$41,667	\$14,075	\$12,713	\$1,362

*This is a simplified analysis that doesn't account for pre-tax deductions of other provisions that affect many workers' take-home pay. **Source:** IRS, Yahoo Finance

Opportunity for 401(k) Savings

Workers who see a positive change in their paycheck (i.e., a larger paycheck) should consider using this opportunity to put a portion of, or all of, that paycheck increase into their 401(k).

Treat this paycheck increase like you would an employer pay raise. One of the easiest ways to increase the amount you contribute to your 401(k) is raising the amount you contribute, with each pay raise you get. In many cases, your take-home pay may not be greatly lowered when you increase the amount you contribute each month.

Even a small increase in your 401(k) contribution rate (say 1% to 3%) can have a significant impact over time in the retirement assets you can accumulate.

To help people determine their withholding, the IRS is revising the withholding tax calculator on IRS.gov. The IRS anticipates this calculator should be available by the end of February. Taxpayers are encouraged to use the calculator to adjust their withholding once it is released.

As with any tax-related issue, we encourage you to consult your tax professional for guidance.