

The Big Beautiful Bill

A Permanent Extension of the TCJA, and What it Means for Your Clients

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Congress has passed - and the President has signed into law - the Big Beautiful Bill¹, which includes some important tax changes with the potential to impact most U.S. savers.

Chief among the provisions impacting your clients will be the permanent extension of individual income tax bracket reductions first established in the 2017 Tax Cuts and Jobs Act.

What do these changes mean for your clients - and how can we help them leverage this legislation to plan for a more successful retirement?

Evaluating Taxes in Retirement

There are two distinct ways we need to evaluate this legislation - and taxes more generally - for our clients.

The first is the near-term impact: What this legislation means for tax rates in the near term, and how savers may want to adjust their retirement strategies accordingly.

Of course, none of our clients plan to live in retirement only for the next few years. Because retirement is a long-term endeavor, the long-term impact of this legislation and other economic, demographic and fiscal trends are equally critical to evaluate and address.

By understanding both short-term impacts and long-term pressures, we can help clients develop a retirement approach that offers better protection across their lifetime in retirement.

Potential Impacts of the New Administration & Congress

Let's start with the near-term impact of the Big Beautiful Bill.

There are many changes in this legislation with the potential to positively impact our clients - from a permanent extension of the higher estate tax exemptions to a new tax deduction for older savers offsetting the taxation of Social Security benefits¹. For the purposes of this paper, however, I'm going to focus on the permanent extension of the individual income tax bracket rates that were passed as part of the Tax Cuts and Jobs Act in 2017². Previously, these tax bracket rate reductions were set to expire at the end of 2025. Now, today's current (lower) bracket rates will continue indefinitely into the future.

This is extremely important for clients considering changing the tax status of any of their retirement assets, particularly from tax-deferred vehicles (like 401(k)s and IRAs) to tax-free vehicles (like Roth accounts or Roth alternatives like cash-value life insurance)³. The tax “cost” of conversion is lower today (and now into the future) than it was pre-reform.

How much lower?

For middle-income Americans, we’ve analyzed that individual income tax bracket rates are about 30% lower today than they were pre-reform (for example, a middle quintile single filer pays at a 22% rate today, versus a 28% rate in the year 2000)⁴.

This means today’s tax bracket rates for many Americans are up to 30% lower than near-term historical averages - a big potential savings for clients interested in converting funds to tax-free vehicles.

But the passage of the Big Beautiful Bill legislation has raised a different question in the minds of many U.S. savers (and often the advisors that serve them).

Since Congress has passed a *permanent* extension of these bracket reductions, do we need Roth conversions?

After all, we no longer have to worry about brackets reverting to their older, higher rates in the future. So is there still a need to convert?

In my evaluation, the answer is a resounding: Yes.

What drives my answer is less about the near-term impact of this legislation, and more about a long-term analysis of both the Big Beautiful Bill and other economic, fiscal and demographic pressures the U.S. faces - today and in the years to come.

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Before we turn to the long-term impacts of the bill, I want to emphasize: the Big Beautiful Bill includes tax provisions that will help U.S. savers maintain lower tax rates in the years to come, and that should be celebrated with our clients.



Within that celebration, we need to leverage today’s lower tax rates to prepare for what likely lies ahead. For most of our clients, retirement is not about the next five or ten years; it’s about the next twenty, thirty or even forty years in the future. So when we look at lifetime retirement taxes, we need to evaluate not only the near-term rates but also what could happen to taxes over the next several decades ahead.

And that’s why it’s critical we help our clients understand the long-term outlook for U.S. taxes.

Long-Term Outlook

First, let's look at the "permanent" extension of the tax bracket rate reductions.

I've put "permanent" in quotation marks because nothing in Washington is ever truly permanent. A permanent extension just means that bracket rates will not automatically rise in the future - they will only rise if Congress votes for them to do so.

(If we look at tax reform efforts in the U.S. going back to the Reagan cuts in the 1980s, we find that most low-tax-bracket rate eras in modern history - whether temporary or permanent - last between 8-12 years⁵. So one constant of the tax code is that it's never constant for long.)

As I survey today's fiscal and demographic landscape, my answer is: High.

Here are the top indicators I'm watching that indicate higher taxes are coming:

 **U.S. Spending** | In the last fiscal year, our country brought in \$4.9 trillion in revenue - and spent \$4.9 trillion on mandatory (non-Congressional) spending alone. That means expenditures like Social Security, Medicare and servicing our federal debt⁶ used up nearly every single dollar the government generated through taxes and other fees. Of course, as a nation, we still have to fund priorities outside of these mandatory government programs. And that meant every single dollar Congress appropriated for things like defense spending, military needs and transportation funding was deficit spending⁶. This is not sustainable.

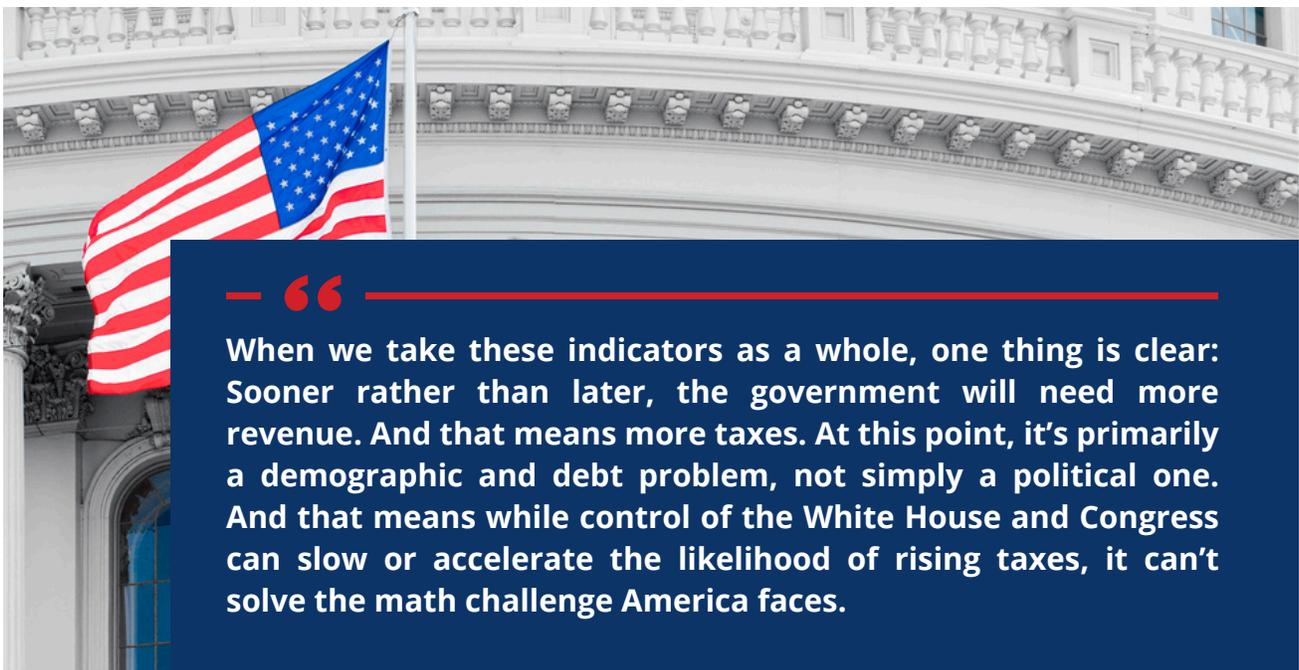
 **Demographics** | The reason our government's budget is so imbalanced is not primarily because of Congressional spending. It is because of demographics. The two largest areas of expenditure for our government are Social Security and government health programs like Medicare⁷. Our aging population will put increasing pressure on the Social Security and Medicare programs, driving program costs far higher than today. In fact, the CBO reports that by 2035, current taxes will only cover 75% of scheduled Social Security benefits.⁸ The outlook for Medicare isn't any better. Program spending is expected to grow at nearly 8% every year over the next decade.⁹

 **Debts and Deficits** | The Congressional Budget Office (CBO) projects that over the next decade, the annual budget deficit will range from \$1.7 trillion to \$2.9 trillion⁶.



As our clients evaluate various tax opportunities in today's lower-rate environment, the question they'll need help answering is: What is the likelihood of Congress voting to raise taxes in the future?

That makes one thing very clear: Americans are underpaying for the government we currently have. Today and into the decades ahead, U.S. revenue will not support the level. And while certainly our government could reduce spending in numerous places, as we can see in the indicators above the problem runs much deeper than any new bills the President and Congress may pass. Alas, we can't just look at our nation's deficit (about \$1.9 trillion in the last fiscal year⁷). Our national debt stands at a historical record-high - \$36.2 trillion¹⁰ as of this memo's writing - costing our government nearly \$1 trillion in debt service last year alone⁷. Layer on top of that the \$75 trillion of unfunded Social Security and Medicare obligations we'll incur as a nation in the years ahead¹¹, and a clear picture emerges: we have a growing hole between the money our government takes in and the money it sends out.



Other Ways Taxes Can Change

It won't just be tax bracket rates that are impacted. One way Congress can raise additional revenue without adjusting brackets is by lowering the amount of income subject to each bracket, thereby generating more revenue as more income is taxed at higher brackets. We've seen adjustments to both rates and income levels applicable to each rate often during tax reforms⁵.

But in my analysis, moving forward some of the highest risks of rising taxes our clients will face may not be found in tax brackets at all. The fiscal and demographic pressures will encourage Congress to find new ways of generating revenue from U.S. savers. And we're already seeing it happen.

Take, for example, IRMAA - the surcharge some Americans pay on top of their Medicare premiums based on that saver's income level.

In 2003, as part of the Medicare Modernization Act¹², Congress created a new fee for American savers, called the Income-Related Monthly Adjustment Amount (or IRMAA). Essentially, the government looks at a taxpayer's income from previous years, and if certain thresholds are met, a new fee is assessed - on top of that taxpayer's regular income taxes and Medicare premiums.



And so the government has been leaning on IRMAA to generate increasing revenue for the Medicare program. In fact, since 2019, IRMAA surcharge rates for the lowest bracket have risen more than 7% annually¹⁴ - year after year. And the government isn't done. A CMS report from last year outlined that these Medicare trust funds would be adequately financed into the future only because the government can raise IRMAA fees (and premiums) to match any expected shortfalls¹³.

IRMAA fees - and other creative revenue-generating initiatives Congress is considering - have the same effect as rising tax-bracket rates: They raise the amount of your client's retirement income going to the government, and reduce the amount going into your client's bank account.

In summary, the long-term tax outlook on both bracket and additional fees and taxes is grim.

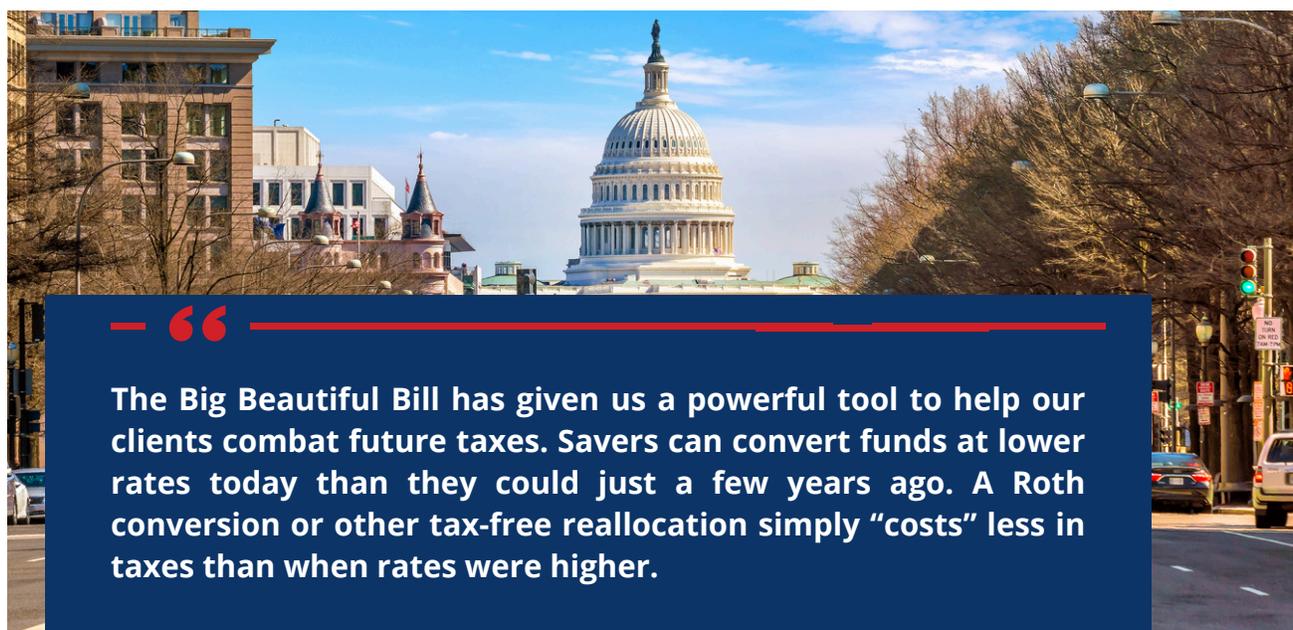
But it's not hopeless. In fact, there are important ways we can help our clients prepare - leveraging today's lower bracket rates to protect them from what may lie ahead.

Helping Our Clients Prepare

Tax diversification is an increasingly critical component of comprehensive retirement planning. And the passage of the Big Beautiful Bill doesn't change that.

In fact, the extension of today's lower tax bracket rates makes the case for tax-free conversions as strong as ever for many Americans. Here's why:

Today's tax rates are significantly lower than the rates we've seen in recent history.



The drawback is that - over time - taxes have nowhere to go but up. It's hard to argue that future taxes will be lower than they are today, for all the reasons mentioned in this paper. That means many savers may find themselves facing higher taxes at some point in retirement.

But the Big Beautiful Bill has given us a powerful tool to help our clients combat future taxes. Because the extension is “permanent,” there's no current expiration date for these lower tax bracket rates. That can give advisors greater flexibility in structuring Roth conversions to meet client preferences and needs - whether the client wants to convert over 3 years, 5 years or more.

Additionally, because Roth income and supplemental income generated from tax-free alternatives like cash value life insurance³ aren't included in income calculations for IRMAA¹⁵, tax-free strategies can help address a more complete list of ways taxes can rise for our clients.

What's Next for U.S. Savers

A lot has changed with the passage of the Big Beautiful Bill. But what hasn't changed is this:

Retirement is a long-term endeavor. And long-term, our country needs more revenue.

A key goal of retirement planning is often to help savers address financial risks in retirement. And asset diversification is a powerful tool we have to help mitigate these unknowable future conditions. Future taxes are one of today's great unknowns - and American savers deserve protection against this risk. I believe they can't achieve an adequate level of protection if all or the majority of their retirement funds are saved exclusively in tax-deferred vehicles like 401(k)s and IRAs. The case for tax-diversification is as strong as ever.

It all comes down to legislative risk: The risk that Washington changes the rules, and those changes negatively impact our clients and their retirement approach. It's on us as financial professionals to help our clients understand what is - in my opinion - one of our era's core truths: The biggest driver of legislative risk in retirement is not whether Republicans or Democrats are in control in Washington. It's our nation's two-year election cycle.

Every two years, we have a new government in America. Because President Trump has already served one term as President, this will be his last term in the White House. Regardless of what his administration accomplishes, we will be electing a new leader soon. The 2024 election did not solve the problems we face as a divided nation; in fact, it created fiercer battlegrounds going into the elections ahead.

Into this uncertainty, we can help our clients protect their retirement assets from the legislative changes of future Presidents and Congresses. Successful advisors can help their clients prepare both for the tax code we have today and for the volatility that could change the tax code we have in the future.



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Higher taxes are coming. And while we don't know the exact timing of when they'll go up, we do know the exact timing of when our clients need to prepare: Now.



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Becky Ruby Swansburg is CEO of Stonewood Financial, a noted public speaker, and co-author of several industry-leading books including *The New Holistic Retirement*. She has built a career in communication and policy, working in the White House under George W. Bush, and on Capitol Hill for the Speaker of the House and other Members of Congress.

DISCLOSURES

This paper represents the author's opinion only and is not to be construed as a prediction of future events. This document is not intended to provide tax, legal or investment advice. Please consult with qualified professionals about your client's individual situation.

¹ "H.R. 1 - One Big Beautiful Bill Act," 119th Congress, Signed into law 07/04/2025, Available online at congress.gov/bill/119th-congress/house-bill/1

² H.R. 1 ("Tax Cuts and Jobs Act"), 115th Congress, Public Law 15-97, Available online at congress.gov/bill/115th-congress/house-bill/1/text

³ This is not a complete discussion of any qualified, Roth, or life insurance product. Products may have limitations and requirements and may not be equally suitable for all clients.

⁴ For a complete discussion of Middle Quintile income tax bracket rates and our belief that rates today are around 30% lower than near-term historical averages, visit tinyurl.com/taxcutrates

⁵ Individual tax reform data can be found through the Congressional Research Service's Bill Search, accessed 07/06/25 and available at congress.gov.

⁶ "Budget and Economic Data," Congressional Budget Office, Accessed 07/06/25 and available online at cbo.gov/data/budget-economic-data

⁷ "The Federal Budget in Fiscal Year 2024," Congressional Budget Office, Accessed 07/06/25 and available at cbo.gov/publication/61181

⁸ "CBO's 2024 Long-Term Projections for Social Security," Congressional Budget Office, August 2024. Available online at www.cbo.gov/system/files/2024-08/60392-Social-Security.pdf

⁹ "National Healthcare Expenditure Projections 2024-2033," Centers for Medicare & Medicaid Services, June 2024. Available online at www.cms.gov/data-research/statistics-trends-and-reports/national-health-expenditure-data/projected

¹⁰ "What is the National Debt?" Fiscal Data, U.S. Treasury. Accessed 07/06/25 and available online at fiscaldata.treasury.gov/americas-finance-guide/national-debt/

¹¹ "Three Layers of Massive Debt," Federal Budget in Pictures, updated January 9, 2025. Chart developed from data obtained from the Social Security Administration and Congressional Budget Office, available at ssa.gov/oact/pubs.html and cbo.gov/publication/61181, Accessed 07/06/25

¹² "H.R. 1, 108th Congress" Public Law 108-173, Accessed 07/06/25 and available online at congress.gov/bill/108th-congress/house-bill/1

¹³ "2024 Annual Report of the Boards of Trustees of the Federal Hospital Insurance and Federal Supplemental Medical Insurance Trustees," Centers for Medicare and Medicaid Services, published May 6, 2024. Available online at cms.gov/oact/tr/2024

¹⁴ "Rate Announcements and Documents," Centers for Medicare & Medicaid Services. Accessed 07/06/25 and available online at cms.gov/medicare/payment/medicare-advantage-rates-statistics/announcements-and-documents

¹⁵ "HI 01001.010 Modified Adjusted Gross Income (MAGI)," Social Security Administration Program Operations Manual System, Accessed 07/06/25 and available online secure.ssa.gov/poms.nsf/lnx/0601101010