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Could Your Taxes Double Soon?

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Everyone thinks about taxes because they impact what you take home. Let's look at some facts that could force the government to raise taxes in the future.

Slices of the pie

When I worked at a Fortune 500 company, the CEO told me no matter how we slice it, there are still only 100 pennies in a dollar.

What did he mean? He meant everything has limits, and you can't make something out of nothing. This includes our national economy and debt.

According to the Congressional Budget Office (CBO), our nation spends 90% of our annual budget on pay for Medicare, Medicaid, Social Security, and the interest on the national debt.[1]

Think about that. If you had 100 pennies representing America's annual budget, 90 cents would go to just those four areas. That's a pretty big slice of the pie.

As you know, we have many other programs to fund. That includes the military, food stamps, education, federal pension programs, national parks, and much more. But with only 10% (10 pennies) left over after paying the four biggest programs, how much can actually get paid?

That's not all. The CBO indicates that as early as 2035, those four huge programs will take up more than one hundred percent of the budget.[2] That leaves 0 pennies out of every dollar for everything else!

Something has to give. What could our government do to solve this problem?

Tax raises

The government could reduce spending, or they could raise our taxes. Which option do you think politicians often choose?

A reduction in spending is much harder for a politician to pass than a tax hike. When was the last time you've heard a politician say they're going to cut programs or reduce spending?

As you know, political parties often won't reduce spending because that means cutting some programs. That could hurt their chances of election or re-election. For the most part, the government has either raised taxes in the past or chosen not to live within our country's means. The latter option means the Fed will print more money and not operate within the budget set forth, which continues to raise our national debt.

$37 trillion

Right now, the national debt is $37 trillion and counting.[3] We've reached the point where we don't pay much attention to the debt, or even what a trillion dollars means.

If you spent $1 per second, you would end up with $86,400 after 24 hours. In one year, your spending would come to more than $31.5 million. If you kept up that rate of spending, it would take you over 32,000 years to spend $1 trillion. And of course, that's only $1,000,000,000,000. Our national debt is 37 times that, which would take 1,184,000 years to spend at $1/second.

This needs to be addressed or our country will be in serious danger. Just look at the 2009 government-debt crisis in Greece.[4]

In 2018, our federal budget was $4 trillion and our revenue from taxes and fees was $3.6 trillion.[5] If you spent more than you brought in each year, what would happen?

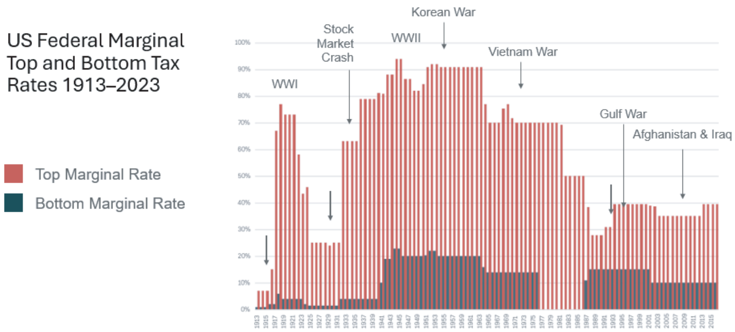
I think our politicians put their heads in the sand and continue marching forward. But one day the credit will run out and we as a country will face a crisis we may not be able to handle. I wish I could tell you our government will wise up and say we need to take a serious look at budget or program cuts. But I fear their solution will just be to raise taxes. Could our taxes double, or go even higher in the future?

Tax precedent

We can look at history for our answer. From 1960 to 1963, the tax brackets started at 20% and quickly skyrocketed all the way up to a 91% tax rate for the richest. By contrast, our tax brackets today start at 10% and only go up to 37%.[6]

By that comparison alone, I'd say taxes could double again. Just look back in history with the following graph to see the United States' historical taxes.

Taxes Throughout History



How can you prepare for future tax hikes? Let's take a moment and look at a solution.

Seed or harvest?

When I teach financial classes, I talk about three buckets of income. You have taxable, tax-deferred, and tax-free income.

The taxable bucket holds things that generate a 1099, like brokerage accounts, savings, stock, etc. The tax-deferred bucket holds our 401(k)s and 403(b)s. We're encouraged to put money into this bucket because it will reduce our taxable income. While this is correct, at some point you will begin to take money from this bucket, especially in retirement, and that will generate a taxable event. Which tax bracket will you be in then, considering the potential future tax raises our country may see? No one can say for sure, but it's very likely you could fall into a much higher tax bracket by then.

That doesn't mean you shouldn't invest in your 401(k). In fact, if your company offers a matching program, you should take full advantage of that. But I wouldn't recommend putting in any more than the match.

Lastly, the tax-free bucket holds Roth IRAs, Roth Conversions, Roth 401(k)s, and some proper life insurance strategies. With these products, you'll be able to withdraw that money without being taxed.

I leave you with this question: Which would you rather pay taxes on, the seed or the harvest? By seed, I mean the money going into your tax-deferred account, and by harvest, I mean the money you withdraw from it. The answer may be different for everyone. Your answer will determine where you should invest the most.

It's not a long shot to say taxes will need to go up by a lot to pay for all our programs. When that happens, will you be ready? If not, start looking at strategies today that will allow you to keep more of your money tomorrow.

[1-6] For sourcing and more information, please visit https://www.cbo.gov/system/files/2025-01/60870-Outlook-2025.pdf

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