

# AI-00759 401K Withdrawal at Low Tax Rate

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**Me and my wife early retired and no wages, we would like to early withdraw from our 401k and willing to pay the 10% penalty at 12% tax bracket and the withdrawn amount is our only income. Note: We are from Texas and no state tax.**

**Given:**

- 1. Husband age in 2024=57**
- 2. Wife age in 2024=56**
- 3. Willing and aware to pay 10% IRS 401k withdrawal penalty.**
- 4. Would like to stay within the 12% IRS Tax Bracket**
- 5. Residence=Texas, USA**
- 6. Income=Zero, we have no other wages except the Withdrawal Amount**
- 7. Type of 401k account=Traditional Rollover IRA**
- 8. Use the IRS Standard Deductions in calculating the estimated tax.**
- 9. Filing Status=Married filing Jointly.**

**Requests:**

- 1. Explain the IRS 12% Tax Bracket in 2024 Married, Filing Jointly.**
- 2. Show the method to calculate (estimate) the amount to withdraw with the taxes paid and within the 12% tax bracket.**
- 3. Using the formula, calculate (estimate) the taxes of the following withdrawn amount and show the taxes and penalty and net income in a table format:**
  - a. Withdrawn amount=\$70000**
  - b. Withdrawn amount=\$80000**
  - c. Withdrawn amount=\$90000**
  - d. Withdrawn amount=\$100000**

**e. Withdrawn amount=\$110,000**

**f. Withdrawn amount=\$120,000**

From Gemini

## 1. Explanation of the IRS 12% Tax Bracket in 2024 Married, Filing Jointly

For tax year 2024 (taxes filed in 2025), the 12% tax bracket applies to **married couples filing jointly** with taxable income between **\$23,200 and \$94,300**. This means that the first \$23,200 of your taxable income will be taxed at 10%, and the remaining amount up to \$94,300 will be taxed at 12%. Any income exceeding \$94,300 will fall into higher tax brackets.

## 2. Method to Calculate Estimated Withdrawal Amount

Since you want to stay within the 12% tax bracket and your only income is the 401k withdrawal, you need to consider the following:

- **Standard Deduction:** The standard deduction for married couples filing jointly in 2024 is **\$29,200**. This amount is subtracted from your taxable income before calculating taxes.
- **10% Early Withdrawal Penalty:** You will be subject to a 10% penalty on the withdrawn amount.

Here's the method to estimate the withdrawal amount:

### 1. Subtract the standard deduction from your desired net income:

- **Net income** = Amount you want to have after taxes and penalty.
- **Example:** If you want a net income of \$60,000, the calculation would be:  $\$60,000 - \$29,200 = \$30,800$

### 2. Divide the remaining amount by 0.88 (1 - 12% tax rate):

- This accounts for the taxes you'll pay within the 12% bracket.
- **Example:**  $\$30,800 / 0.88 = \$35,000$

### 3. Add the 10% penalty to the calculated amount:

- **Example:**  $\$35,000 + (\$35,000 * 10\%) = \$38,500$

**Therefore, to achieve a net income of \$60,000, you would need to withdraw approximately \$38,500 from your 401k.**

**Note:** This is an estimate, and the actual amount may vary depending on other factors like state taxes (which you don't have) and additional deductions or credits you may qualify for. It's recommended to consult a tax professional for personalized advice.

### 3. Estimated Taxes and Net Income for Different Withdrawal Amounts

Here's a table showing the estimated taxes, penalty, and net income for the different withdrawal amounts you provided:

Withdrawal Amount	Taxable Income (after Std. Deduction)	12% Tax	10% Penalty	Total Tax & Penalty	Net Income
\$70,000	\$40,800	\$4,896	\$7,000	\$11,896	\$58,104
\$80,000	\$50,800	\$6,096	\$8,000	\$14,096	\$65,904
\$90,000	\$60,800	\$7,296	\$9,000	\$16,296	\$73,704
\$100,000	\$70,800	\$8,496	\$10,000	\$18,496	\$81,504
\$110,000	\$80,800	\$9,696	\$11,000	\$20,696	\$89,304
\$120,000	\$90,800	\$10,896	\$12,000	\$22,896	\$97,104

**Remember:** These are estimates, and consulting a tax professional is crucial for accurate calculations and personalized advice based on your specific situation.

From Copilot

Sure, let's break down your requests:

- 1. IRS 12% Tax Bracket in 2024 for Married, Filing Jointly:** The IRS tax brackets are layers of income to which different tax rates apply, and these brackets are adjusted annually for inflation<sup>12</sup>. For the tax year 2024, if you're married and filing jointly, the 12% tax bracket applies to taxable income from \$23,200 up to \$94,300<sup>12</sup>.
- 2. Method to Calculate (Estimate) the Amount to Withdraw with Taxes Paid and Within the 12% Tax Bracket:** When you withdraw from your 401(k) before the age of 59.5, you'll typically pay a 10% early withdrawal penalty on the amount withdrawn<sup>34</sup>. Additionally, the withdrawn amount is considered taxable income<sup>34</sup>. Here's a basic method to calculate the taxes and penalty:
  - Calculate the 10% penalty by multiplying the withdrawal amount by 10%<sup>4</sup>.
  - Determine the taxable income by subtracting the standard deduction from the withdrawal amount.
  - Calculate the tax by multiplying the taxable income by the tax rate (12% in your case).
  - Subtract the tax and penalty from the withdrawal amount to get the net income.
- 3. Calculating the Taxes, Penalty, and Net Income for Various Withdrawal Amounts:** Let's use the method above to calculate these amounts for the withdrawal amounts you

provided. Note that the standard deduction for married couples filing jointly for tax year 2024 is \$29,200.

Here's a table summarizing the calculations:

Withdrawal Amount	10% Penalty	Taxable Income	12% Tax	Net Income
\$70,000	\$7,000	\$40,800	\$4,896	\$58,104
\$80,000	\$8,000	\$50,800	\$6,096	\$65,904
\$90,000	\$9,000	\$60,800	\$7,296	\$73,704
\$100,000	\$10,000	\$70,800	\$8,496	\$81,504
\$110,000	\$11,000	\$80,800	\$9,696	\$89,304
\$120,000	\$12,000	\$90,800	\$10,896	\$97,104

Please note that these are estimates and actual amounts may vary. It's always a good idea to consult with a tax professional or financial advisor for personalized advice. Also, remember that withdrawing from your 401(k) early can impact your long-term retirement savings, so it's important to consider all your options<sup>34</sup>.