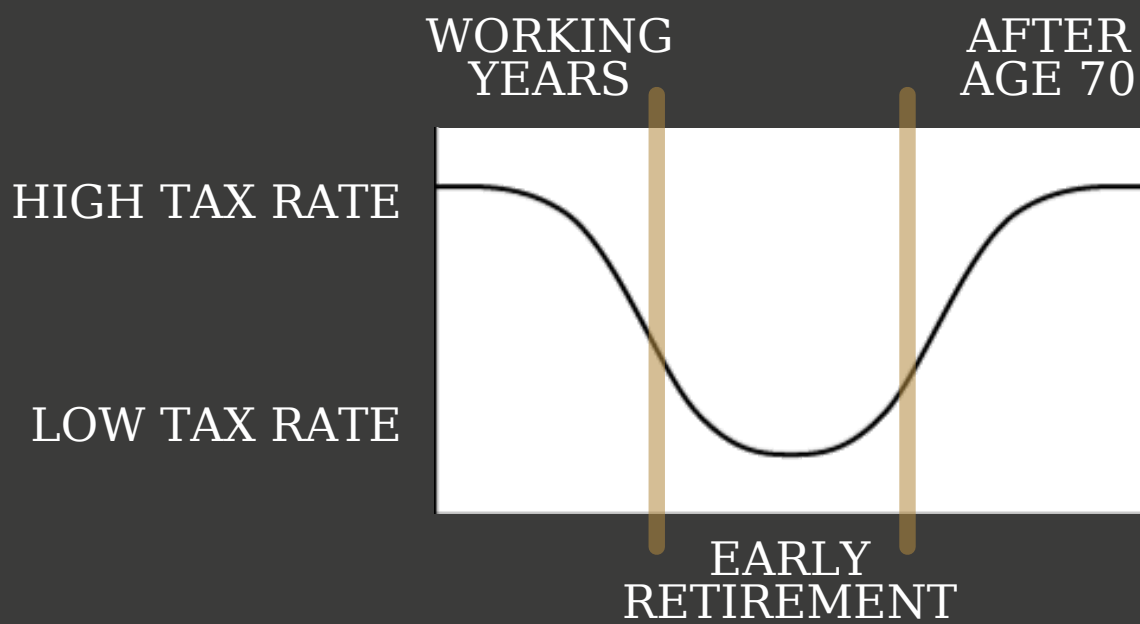


TAXES IN RETIREMENT

The number one thing that can increase wealth in retirement is understanding how the tax code works. It's also having a general understanding of economics. There are three main phases of your tax situation that you can control in retirement.

This is typically how someone's taxes and retirement situation will look:



The reason for this is that in their working years they have no control over the tax bracket they are in and then an early retirement they take distributions from their tax-free or low tax investments and get themselves into a lower income tax bracket. Then when they finally go to take distributions off of their 401(k) or traditional IRA that is going to be taxed the money in those accounts have compounded becoming larger and larger and when they turn 72 they now have to take a minimum distribution by the IRS out of their traditional 401(k) or RA and it's bigger than it's ever been and going to be taxed more than it's ever been.

Working Years

Early Retirement

After Age 70 1/2

The main thing we're going to cover in the working years is what you can affect in the future with your current contributions. There are two types of contributions that you can make to retirement today: **pretax and post tax**. When you put money into a 401(k) or a traditional IRA (Pre-tax) leading up to retirement you deduct those dollars from your income today and allow them to grow tax-deferred meaning you don't pay tax on them while they grow. And then when you take distributions on these accounts in the future you'll be taxed as ordinary income. Which could be as high as 40%. These plans can be especially beneficial for individuals who were in a high tax bracket today and plan on being in a much lower income tax bracket and retirement. If you plan on being around the same tax bracket as you are today. See them listed below

We need to take a hard look at where you're saving your money today. The reason being in the future you want all of your income from retirement to be tax-free if possible and affordable. When you put contributions into a retirement plan like a Roth 401(k) or IRA you do not deduct those dollars from your income today but when you take distributions in the future the principal and the growth come out income tax-free. This can be especially important when working with an entrepreneur who wants to start taking retirement income while still working on their business. They don't want their passive income to be taxable and added to the taxable income from their business.

Here's the easy answer. If you foresee yourself being in a lower tax bracket retirement it's not a bad idea to deduct dollars from your income today to save on tax. If you see yourself being in the tax bracket you're already in or a higher tax bracket. It's important that you start having dollars work and compound income tax-free. That's why Big Money management with all of our higher-income earners we usually go to a Roth type investment that is using after-tax dollars and growing tax free.

Now let's talk about early retirement: you're going to start making decisions on where you're going to start taking distributions from. This is extremely important if you have a heavy mix of different types of taxable investments within your portfolio. If taxes are going to marginally rise in the future; then you want to start taking your distributions first from your highest taxable assets. These are going to be ones like your traditional 401(k) or a ride that would be taxed as ordinary income. You want to defer taking distributions on any income tax-free investments; the reason being if taxes are going to rise in the future the investments that are tax-free will be worth more in the future than they are today from a tax standpoint. So you want to systematically withdraw your retirement accounts from highest tax to lowest tax. If you want to know more about what you need saved to be able to draw the retirement you want here's a link <https://f.hubspotusercontent20.net/hubfs/8982973/How%20To%20Retire.pdf> to my other article on how to retire.

Once you get into your older years now it's time to go ahead and start taking distributions from those Roth or tax-free investment accounts. Hopefully, by this point, you've taken more than the normal individual out of your traditional IRA or 401(k) because you've used it for the beginning of your retirement and now you're going to your tax-free assets. The IRS will still require that you take the required minimum distributions from your pre-tax accounts at 72 and right now that percentage is about 4% of your total account balance and it scales up each and every year. There are a few things you can do as you get older to lower your tax bracket.

One of the best tax strategies that I've seen for older individuals is qualified charitable distributions or QCD. QCDs are distributions straight from your traditional 401(k) or IRA instead of you just taking the money out to give to your church or charity from your 401(k) and then writing a check. These types of distributions are deductible and come out of your retirement account income tax-free. This helps you save on tax and lower your RMD's because it counts towards those.

The main goal of the whole tax strategy should be to smooth out the curve instead of it looking like a large valley. If you do this you will spread your tax bill over retirement and actually end up saving money on tax in the long run. Aside from this always make sure you have a good CPA if you need a recommendation on any in the area we have some great choices who work with our clients directly.

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