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Retirement Watch
SPOTLIGHT SERIES

Closing The Retiree Tax Gap: How to Increase Your Income by Paying Less to the IRS

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Retirees Don't Know Enough About Taxes

**Somewhat or not at all knowledgeable
about tax planning:**

- **60% of future retirees**
- **70% of recent retirees**
- **75% of those retired > 10 years**

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Retiree Tax Regrets

- **50% of recent retirees wish were better prepared**
- **25% paid thousands more in taxes than expected**
- **Most retirees owe taxes each year**

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The Planning Gap

- **37% didn't consider taxes in retirement planning**
- **Taxes are one of three highest retirement expenses**

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Keys to Beating the Retiree Tax Attack

- Know there are few retiree tax breaks
- Don't bet too much on deferral
- Have flexibility, diversification
- Use tax bracket management
- Year-round tax planning

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The Deferral Trap

- **Front-loads benefits, back-loads taxes**
- **Tax rates might not decline**
- **The IRA Waterfall**
- **Triggers Stealth Taxes**

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Tax Diversification Benefits

- **Reduces ordinary income**
- **Controls income flows**
- **Maximizes bracket management**
- **Increases after-tax income, wealth**
- **Disadvantage: More work**

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Tax Bracket Management

- **Know how different cash flows are taxed**
- **Know your tax brackets**
- **Identify uncontrollable cash flows**
- **Plan, manage other cash flows**
- **Minimize tax rates**

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How Cash Flows Are Taxed

- **Tax free**
- **Tax sheltered or advantaged**
- **Ordinary income**
- **Stealth Taxes**

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Key Tax Brackets

- **TFII = LTCG and qualified dividends**
- **0% on TFII if income tax bracket 12% or less**
- **\$78,950 for MFJ; \$39,475 for singles**
- **20% on TFII when taxable income:**
 - **\$488,850 and above for MJF**
 - **\$434,550 and above for singles**
- **Otherwise rate on TFII = 15%**



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The Gross Income Brackets

- Brackets are for taxable income
- Add:
 - Standard deduction or itemized expenses
 - Additional 65+ standard deduction
- Result: gross income brackets

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Case Study

- **Uncontrolled gross income = \$50,000**
- **Gross income bracket ceiling = \$105,950**
- **Can take up to \$55,950 of long-term capital gains at 0% tax rate**
- **Or increase other income at 12% rate**



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Tax Bracket Management Steps

- **Compare standard deduction and itemized expenses**
- **Estimate uncontrollable income**
- **Consider portfolio changes**
- **Estimate maximum LTCG can take**

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Enhance Bracket Management

- **Recognize capital losses**
- **Avoid short-term gains**
- **Recognize LTCGs, repurchase investments to increase basis**
- **Avoid extra traditional IRA distributions**
- **Convert traditional IRA to Roth IRA**

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Beware of Stealth Taxes

- **Additional income triggers these taxes**
- **Adjusted gross income is what counts**
- **Extra step in planning**

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