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Retirement Watch
SPOTLIGHT SERIES

Top 20+ Tax Planning Ideas For the Rest of 2020 and 2021

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Beat the Retiree Tax Attacks

- **Fewer tax breaks**
- **A top-three expense**
- **Stealth taxes target retirees**
- **You can reduce the IRS's take**
- **Don't leave money on the table**

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4 Categories of Tax Savings

- Tax bracket management
- Income shifting
- General tax reduction
- Income smoothing

Notice: No income deferral

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Tax Bracket Management

- **Identify your tax bracket**
- **Stay in your bracket**
- **Use tax diversification**
- **Better than “spend accounts in the right order”**

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Know Your Tax Bracket

Rate	For Single Individuals, Taxable Income Over	For Married Individuals Filing Joint Returns, Taxable Income Over	For Heads of Households, Taxable Income Over
10%	\$0	\$0	\$0
12%	\$9,875	\$19,750	\$14,100
22%	\$40,125	\$80,250	\$53,700
24%	\$85,525	\$171,050	\$85,500
32%	\$163,300	\$326,600	\$163,300
35%	\$207,350	\$414,700	\$207,350
37%	\$518,400	\$622,050	\$518,400

Source: Internal Revenue Service

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Stay In Your Bracket

- **Identify nondiscretionary income**
- **Estimate spending needs**
- **Compute the gap**
- **Plan tax-efficient distributions**
- **Estimate tax bill year-round**

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Capital Gains Planning

Long-Term Capital Gains (LTCG) Tax

Filing Status	0%	15%	20%
Single	Up to \$40,000	\$40,000 - \$441,450	Above \$441,450
Married Filing Jointly	Up to \$80,000	\$80,000 - \$496,600	Above \$496,600
Head of Household	Up to \$53,600	\$53,600 - \$460,050	Above \$460,050

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Planning Capital Gains Sales

- **Stay in your LTCG bracket**
- **LTCG brackets \neq regular tax brackets**
- **LTCG doesn't change taxable income**
- **Collectibles taxed at different rates**
- **Crossing bracket means two rates**
- **Qualified dividends get same rate**

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Tax-Aware Investing

- **LTCG better than ordinary income**
- **Avoid short-term sales**
- **Avoid gifts of substantial LTCG property**
- **Don't forget mutual fund distributions**
- **Take capital losses when have them**

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Know the Stealth Taxes

- **Social Security benefits**
- **Medicare premium surtax (IRMAA)**
- **3.8% net investment income tax**
- **Phaseouts of some breaks**
- **Alternative minimum tax**
- **Others could return after 2025 or sooner**

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When Social Security is Taxed

- **Tax free:** Singles < \$25,000
MFJ < \$32,000
- **Up to 50% taxed:** Singles > \$25,000
MFJ > \$32,000
- **Up to 85% taxed:** Singles > \$34,000
MFJ < \$44,000



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Key Social Security Tax Facts

- **More than half pay taxes on benefits**
- **Brackets not indexed for inflation**
- **Percentage rises each year**
- **>\$100,000 pays about 21% in taxes**

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The Medicare Premium Surtax

Who Pays IRMAA in 2020?

2018 MAGI Individual	2018 MAGI Married Joint	Part B Monthly Premium	Part D Monthly Surtax	Total Monthly Surtaxes
≤ \$87,000	≤ \$174,000	\$144.60	\$0.00	\$0.00
≤ \$109,000	≤ \$218,000	\$202.40	\$12.20	\$70.00
≤ \$136,000	≤ \$272,000	\$289.20	\$31.50	\$176.10
≤ \$163,000	≤ \$326,000	\$376.00	\$50.70	\$282.10
≤ \$500,000	≤ \$750,000	\$462.70	\$70.00	\$388.10
> \$500,000	> \$750,000	\$491.60	\$76.40	\$423.40

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Keys to the Stealth Taxes

- **Modified adjusted gross income (MAGI)**
- **Itemized deductions don't count**
- **Add back tax-exempt interest, others**
- **Marginal tax bracket can be high**
- **Tax bracket management is solution**

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Tax Bracket Management Summary

- **Reduces lifetime income taxes**
- **Makes nest egg last longer**
- **Manages progressive tax rates**
- **Maximize income in current bracket**
- **Avoiding jumping to higher bracket**
- **Need tax diversification**

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Income Shifting

- **Increase family's after-tax income**
- **Shift income to lower bracket**
- **Tax-wise way to help children**
- **Part of estate plan**
- **Unique opportunity with low tax, interest rates**
- **Use estate & gift tax exemption**

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Intrafamily Loans

- **Extremely flexible**
- **Lend money, property to family member**
- **Minimal interest charged**
- **Family member keeps income, gains**
- **Loan can be forgiven**
- **Details in August 2019 *Retirement***

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More Income Shifting Strategies

- **Family limited partnership**
- **Charitable Remainder Trust (CRT)**
- **Grantor Retained Annuity Trust (GRAT)**
- **Dynasty trust**
- **Intrafamily asset sales**
- **Gifts of assets**

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General Tax Reduction

- **Less gross income = less taxable income**
- **Tax-aware investing**
- **Deductions**
- **Move for tax reduction?**

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Full or Partial Exclusions

- **Health savings accounts**
- **Tax-exempt bonds, savings bonds**
- **Roth IRAs**
- **Annuity distributions**
- **Reverse mortgage**
- **Sale of home**

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More Tax-Aware Investing

- **Preferred securities**
- **Match gains and losses**
- **Carry over losses**
- **A sale is a permanent tax loss**
- **Hold highly-appreciated assets**

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Take Your Deductions

- **Charitable giving – many ways to give**
- **Mortgage interest**
- **RVs are homes**
- **Medical expenses**

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Income Smoothing

- **Sudden cash need might arise**
- **Need low-tax cash source**
- **Or large tax bill might arise**
- **Tax code has answers**

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Solution #1

- **Conversions to Roth IRAs**
 - **Pay taxes at today's lower rates**
 - **Lifetime source of tax-free cash**
 - **Tax-free inheritance if not used**
 - **Details in July 2020 Spotlight**

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Solution #2

- **Charitable remainder trust**
 - **Shelters gain from appreciated asset**
 - **Provides current tax deduction**
 - **Deduction can be carried forward**
 - **Provides lifetime income**
 - **Details in July 2020 Spotlight**

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Solution #3

- **Permanent life insurance**
 - **Cash value earns tax-deferred income**
 - **Cash value can be borrowed**
 - **Tax-free source of cash**
 - **Additional inheritance**

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