10 Ways to Reduce the Tax Bite on Your Retirement Income

ZENIKI WEALTH
EXPERT ADVICE AT A FAIR PRICE

Introduction

You've been working for years to build a nest egg that can provide a comfortable retirement. Now it's time to look at what you can do to preserve those hard-earned savings.

One of the risks pre-retirees often overlook is taxes. Minimizing the taxes you'll pay in retirement can help your nest egg last longer. Which means vigilant and proactive tax planning may be more important than ever at this stage of your life. Without it, your retirement savings could be extremely vulnerable—especially if tax rates rise in the future.

Here are 10 moves that could help you lower your tax bill and keep more of your hard-earned money.

1 Take Advantage of Income Tax "Valleys" to Do a Roth Conversion

Have you been putting most of your retirement savings into a tax-deferred investment account, such as a traditional IRA or 401(k)? Converting all or a portion of those funds to a Roth IRA could go a long way toward reducing future tax bills.

But you'll have to pay taxes on any money you withdraw in the year you withdraw it. So you'll want to be cautious about how the conversion might affect your tax bracket.

One way you can minimize the tax impact is to convert in years when your income is lower—or in an "income tax valley"—instead of in your peak earning years.

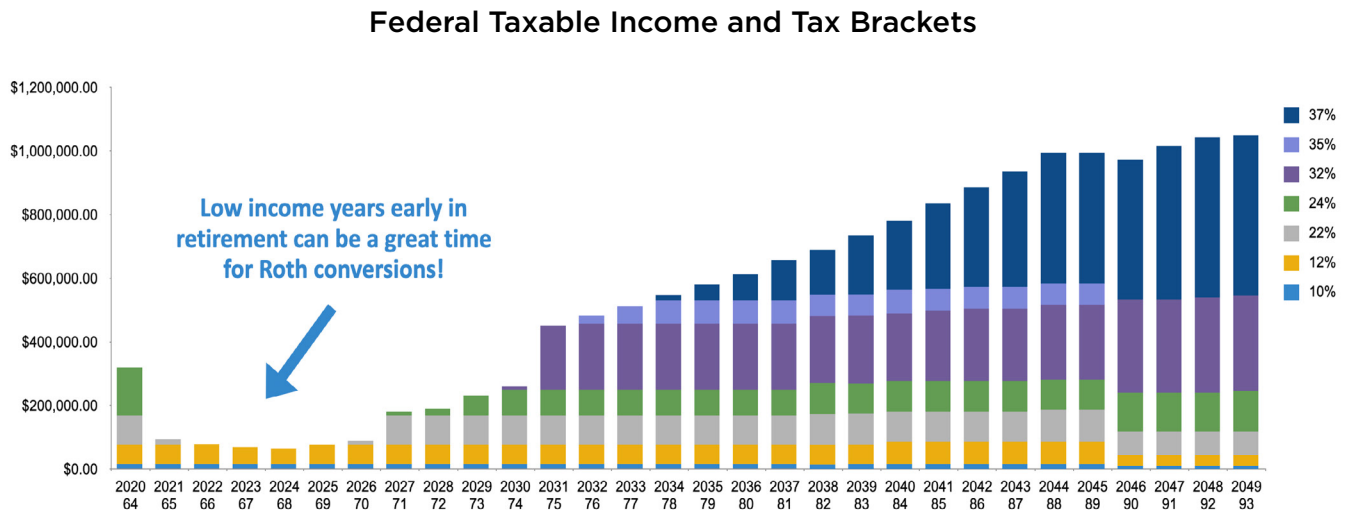
Savers frequently find the sweet spot for doing a conversion is between the ages of 65 and 70.

This is the period after you retire but before you file for Social Security or have to take required minimum distributions (RMDs).

Converting in a year when you've had extremely high health-care costs and/or some other tax-deductible expenses also could make sense. Or if you own a small business, a year of low profits might provide a good opportunity to convert.

Need help evaluating the benefits and timing of a Roth conversion? Call Us Today to discuss the pros and cons of moving to a Roth IRA.

Retirement Income Tax Valley

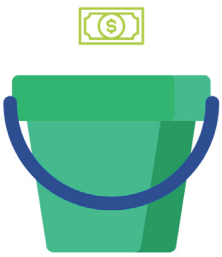


2 Create an Asset Location Strategy

As an investor, you probably know about asset *allocation*, which involves dividing your portfolio holdings across different sectors to help minimize volatility. Asset *location* is something different—but it can be just as important to your bottom line in retirement.

Asset location starts with evaluating which of your investments are tax-efficient and which are not. Then you can determine the appropriate account in which to place those investments in order to receive the most favorable overall tax treatment.

- Investments in traditional **brokerage accounts** are taxed when they earn interest or dividends, or when capital gains are realized. So your brokerage account can be a good place to keep tax-efficient investments, such as municipal bonds, exchange-traded funds (ETFs), long-term stocks, dividend stocks and master limited partnerships (MLPs).
- A **tax-deferred account** like a 401(k), 403(b), traditional IRA, etc., allows investors to delay paying taxes on contributions and earnings. But withdrawals are taxed as ordinary income, and retirees must begin taking RMDs from these accounts when they turn 73. Tax-efficient investments, including real estate investment trusts (REITs), short-term investments (those you plan to hold for less than a year), taxable bonds and CDs, and high turnover mutual funds can be a good fit here.
- **Tax-exempt accounts** like Roth IRAs or Roth 401(k)s require the owner to pay income taxes upfront. But account holders won't pay any taxes on withdrawals—even investment earnings—as long as they follow IRS rules. The same investments that you might locate in your tax-deferred retirement accounts (REITs, short-term investments, fully taxable bonds and bond funds), could also be appropriately placed in a Roth account.

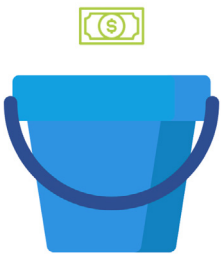


Brokerage Account

Municipal bonds, exchange-traded funds (ETFs), long-term stocks, dividend stocks, master limited partnerships (MLPs)

Tax-deferred Account
401(k), 403(b), Traditional IRA

Real estate investment trusts (REITs), short-term investments, taxable bonds, CDs, high turnover mutual funds



Tax-exempt Account
Roth IRA or Roth 401(k)

Real estate investment trusts (REITs), short-term investments, fully taxable bonds and bond funds

The best location for a particular asset can depend on the investor's marginal tax rate and other factors. And because those factors—not to mention tax laws—can change over time, making decisions about where to locate various investments can get complicated. Which means this part of the planning process is usually best left to an experienced financial advisor who can guide you from year to year.

Determining both the right asset allocation and asset location can be critical to retirement success. Call Us Today to talk about the investment moves you should be making to prepare for retirement.

3 Make Strategic Withdrawals from Your Accounts

If you really want to stretch your nest egg, tax efficiency also should be a key consideration in planning withdrawals from various accounts.

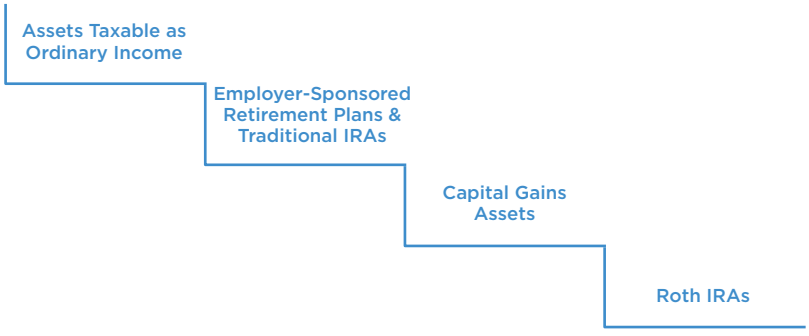
Most withdrawal strategies (including the "4% rule") focus on how much you'll take from your savings each year to add to other income sources, such as Social Security, pensions, etc. But it's also important to keep in mind the types of accounts you'll be pulling money from: taxable, tax-deferred, or tax-exempt.

Traditionally, financial advisors have recommended withdrawing from one type of account at a time: from taxable accounts first, then tax-deferred accounts, and, finally, from tax-free Roth accounts. The goal of this strategy is to give tax-deferred assets more time to grow. But for some savers, a more proportional approach—taking money from each type of account each year—may be more beneficial. Or, if you expect to realize substantial long-term capital gains in retirement, you may need a plan that takes that into consideration.

There's no one-size-fits-all answer when it comes to withdrawal strategies in retirement. But a knowledgeable financial advisor can help determine what makes sense for you. Call Us Today to talk about your options.

Withdrawal Strategy: Finding the Right Account Withdrawal Order

Your retirement plan should include a reliable yet flexible strategy for how you'll tap your savings and assets.



4 Delay Claiming Your Social Security Benefits

It's generally recommended that one or both spouses maximize their Social Security benefits by postponing their filing date for as long as possible. The longer you delay, the more you'll receive each month for the duration of your retirement.

But delaying can also help you better manage your tax bracket and lower your taxes throughout your retirement.

Could you draw down some of the assets in your tax-deferred retirement accounts, for example, and use those funds to live on early in retirement? If so, you may be able to reduce or eliminate RMDs later on. Or, as mentioned above, you could take advantage of the tax valley to do a Roth conversion and get a similar result.

Using these strategies also could help you avoid being taxed on a portion of your Social Security benefits—something many retirees aren't even aware is a possibility. But it's true: If your *combined income* (adjusted gross income + half of your Social Security benefits + nontaxable interest) is higher than IRS thresholds for single or joint filers, you could pay taxes on up to 50% or even 85% of your benefits. (Yet another reason why managing your tax bracket from year-to-year can have a huge impact in retirement.)

Feeling overwhelmed by the number of Social Security claiming strategies available to you and your spouse? Call Us Today to discuss the best options available for you.

5 Consider the Pros and Cons of Municipal Bonds

One of the top advantages of investing in municipal bonds is the interest they pay is exempt from federal income tax—and, often, from local and state taxes as well. This can make "munis" especially attractive to investors who are in a higher tax bracket and are looking to reduce their taxable income—particularly those who live in states with high income tax rates.

Keep in mind, though, that tax-free bonds often pay a lower interest rate than taxable bonds. To get an apples-to-apples comparison of potential investments, your financial advisor can calculate the "taxable-equivalent yield" based on your current tax rate. This can give you a clearer idea of how a specific municipal bond stacks up.

It's also important to note that investing in municipal bonds can have federal tax consequences for retirees who are receiving Social Security. As mentioned above, any municipal bond interest will be counted as income when calculating the taxable amount of your benefits on your federal tax return.

Need help comparing the tax consequences that various investments might have in retirement? Call Us Today about assessing the investments you have and determining what might improve your mix.

6 Be Aware of the Medicare Surcharge

Premiums for Medicare Part B are $164.90 a month for most retirees in 2023, or about $1,979 a year. But some Part B enrollees (about 7%) also can expect to pay a monthly surcharge that can dramatically increase their premium amount.

Medicare's Income-Related Monthly Adjustment Amount (IRMAA) can more than triple Part B premiums for high-income retirees. There's also an IRMAA surcharge for 8% of Medicare beneficiaries who have Part D plans (prescription drug coverage).

The amount of the surcharge is based on where your income from *two years earlier* falls on a five-bracket sliding scale that changes annually. For 2023, for example, the lowest IRMAA charge kicks in if your 2021 modified adjusted gross income (MAGI) was above $97,000 (or $194,000 for a married couple filing jointly). If your MAGI is greater than $500,000 (or $750,000 for married filing jointly), you'll pay the highest IRMAA amount.

There are several tax strategies (including a Roth conversion) that can help you avoid the IRMAA surcharge. But it's critical to plan ahead. If you aren't careful, additional income from IRA withdrawals and capital gains—or just taking out extra to pay for a family vacation—could push you over the IRMAA threshold and increase your Medicare costs.

Don't let the IRMAA surcharge take you by surprise. Call Us Today to set up a free, no obligation consultation that could help you avoid paying more for Medicare.

7 Manage Your Capital Gains

Investors may see capital gains as both good news and bad news for their investment portfolio.

The good news, of course, is that you made a solid investment choice—your asset was a winner and made money. The bad news is that, depending on your income tax bracket, you may have to pay taxes on the realized gain.

With proactive planning, however, you may be able to minimize the hit. There are several strategies that can help you alleviate or spread out the tax burden, including:

- **Monitoring your holding periods:** Short-term capital gains (from assets held for less than a year) are taxed as ordinary income, while long-term capital gains (assets held for more than a year) are taxed at 0%, 15%, or 20%, depending on your income. You may be able to significantly lower your tax bill if you can hold onto an appreciated asset for a year or more.
- **Tax loss harvesting:** You may be able to offset your gains through a strategy called tax loss harvesting, which means selling long-term positions that have produced capital losses.
- **Tax gain harvesting:** If you keep an eye on your income and your tax bracket—and you have some flexibility in your sale timing—it may be best to wait for a year or years in which your taxable income is less to realize long-term capital gains.
- **Staggering your sale:** You also may be able to spread your capital gains tax burden over multiple years by staggering the sale of highly-appreciated assets over two or more years.
- **Take advantage of low capital gains rates in low-income years:** Here's another way to optimize an income tax valley during retirement: If your taxable income as a married couple filing jointly will be less than $89,250 after your standard deduction, or your adjusted gross income will be less than $117,000 in 2023, you may be able to sell appreciated stock at the 0% capital gains rate. (Taxpayers who are also considering a Roth conversion during this period should consult with their advisor before executing either strategy, to ensure they are properly timed.)

Keep in mind, all assets are not created equal when it comes to capital gains. The sale of your residence, a residential rental property, or other asset can have completely different results in terms of tax projections than the sale of securities. And the IRS has a long list of rules dictating what you can and cannot do. Which is why it can be so valuable to have a financial advisor available to help you assess the timing and impact of realizing any type of capital gain.

Concerned and confused about what capital gains could mean for your tax bills in the future? Call Us Today to speak with an advisor who can help you minimize the potential tax burden.

8 Look At Tax-Savvy Options for Charitable Giving

If you like the idea of donating to charity, and you'd prefer to receive a tax break in the process, there are several options to consider. The charitable giving strategy that makes the most sense for you will depend on your personal circumstances, your own financial needs in retirement and your giving goals. Two popular options include:

- **Donor advised funds (DAF)** provide a tax-efficient way to donate stock, mutual funds or other assets and claim a federal income tax deduction in the year the donation is made. The donated assets can then stay invested and potentially grow, tax-free, until the donor recommends which qualified charities should receive a cash donation. Gifts of appreciated securities and assets like art, real estate, precious metals, and insurance can all be gifted instead of cash. They can subsequently sold free of capital gains taxes, thereby adding another substantial tax benefit.
- **Charitable remainder trusts (CRT)** allow one or more designated noncharitable beneficiaries (usually the grantor and spouse) to receive a regular income stream for a specific term while also benefiting from a partial tax deduction. When the term ends, as the name implies, the trust's remaining assets are donated to one or more charities. Appreciated securities also can be contributed to the donor's chosen charity with this strategy and sold free of capital gains taxes—which compounds the tax benefit. The income tax deduction, capital gains avoidance, and subsequent income stream create a high value to the donor while also benefiting a favorite charity.

Because there are so many choices for tax-advantaged charitable giving, most people find it helps to discuss their options with a financial advisor. This is not a DIY project: You will need professional assistance in setting up almost any type of giving plan.

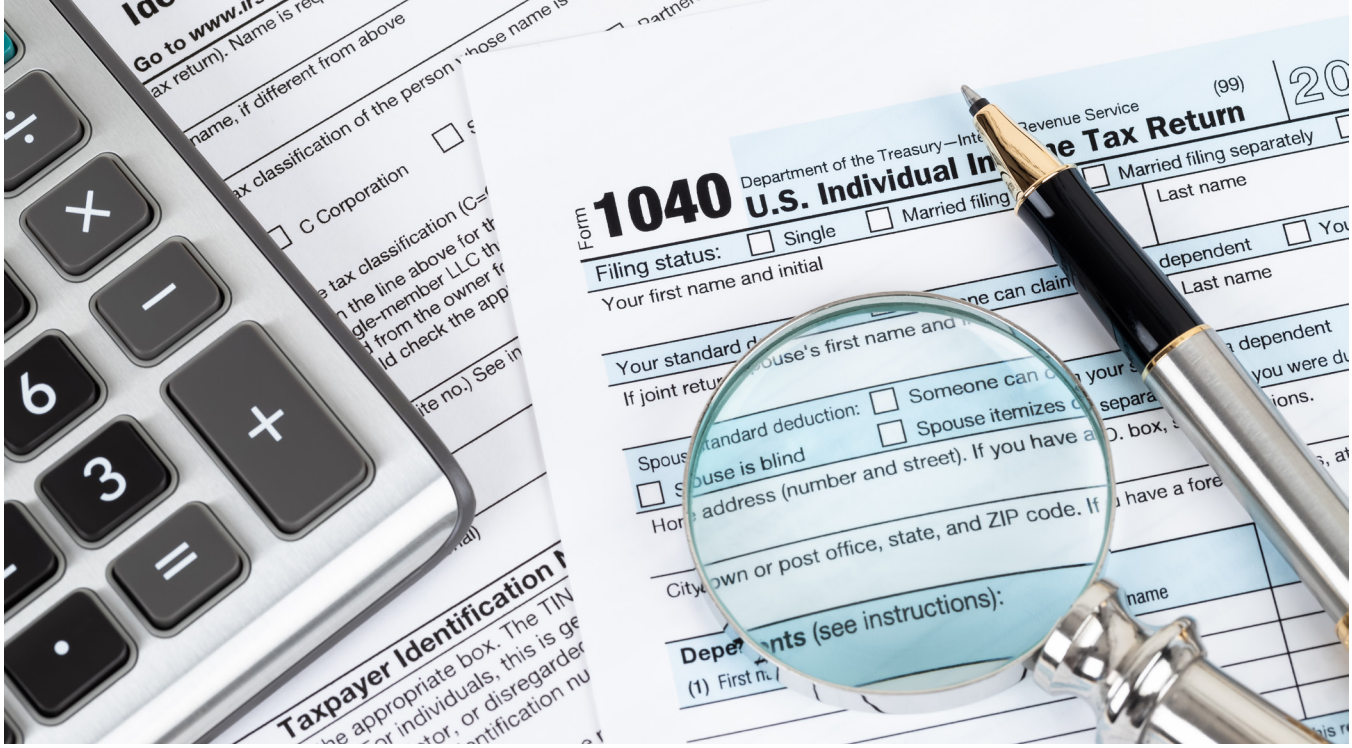
Call Us Today to discuss your goals for charitable giving and the possible tax advantages that may come with it.

Establishing and Using a Donor Advised Fund

Donors make a Tax Deductible Donation

Grow the Donation Tax-Free

Support Charities



9 Bunch Tax Deductions in One Year to Meet Itemizing Thresholds

Often when taxpayers take the standard deduction when filing their federal income taxes, it's because they've fallen just short of what they need to itemize. And, unfortunately, you can't save up those deductions to use another year.

But with proactive planning, you might be able to bunch together some of those expenses and meet the threshold to write them off in one tax year. Then you can go back to taking the standard deduction the following year, when your costs are lower.

Let's say, for example, you know you have some high out-of-pocket medical expenses coming up. Maybe you and your spouse need surgery, new eyeglasses, a qualifying dental procedure, a couple of expensive prescriptions, or a new medical device. You could lump all these things together, pay for them in one year instead of over multiple years, and get the tax deduction.

You can do the same thing with charitable donations, state and local taxes, and some other deductible costs. It's definitely worth running the numbers to see if you can make it work.

"Bunching" or lumping together expenses to meet the threshold for a tax deduction takes discipline and planning. Call Us Today to discuss this strategy further.

10 Research Retiring to a Tax-Friendly State

It's no secret that some states are more tax-friendly than others. According to TaxFoundation.org, seven states (Alaska, Florida, Nevada, South Dakota, Tennessee, Texas, and Wyoming) don't have any state-level income tax at all. Washington only taxes capital gains for high earners. And New Hampshire is phasing out its state tax on dividends and interest.

Compare that to California's top tax rate of 13.3%, and New York's top rate of 10.9%, and you can understand why retirees might see the benefit in moving to a more tax-advantaged location.

Before you pack up and put your home on the market, though, keep in mind that those income-tax-free states may have higher sales tax or property tax rates. They also might have a higher cost of living, a lower standard of living, or a deteriorating infrastructure.

And your grandkids might not live there.

In other words, if you're thinking about relocating in retirement, it pays to do a little comparison shopping.

There's also a common misconception among taxpayers that all you have to do is spend more than half the year in another state to qualify for the tax break. But the tax laws for establishing residency are complex, and the penalties can be high if this strategy isn't properly planned.

Wondering if relocating to another state is a viable strategy for lowering your tax bill? Call Us Today to talk about this and other tax-saving opportunities.

At Zeniki Wealth, it's our goal to help you reach your goals. And we know proactive tax planning is an important part of maximizing your retirement income and savings. We'll start by looking at how your various assets and income sources could affect your tax bill from year-to-year. And we'll help find the right strategies to aggressively tackle your tax burden now and in the future.

***Contact us today* at 386-290-8278 or *schedule a free consultation* to get started on a plan that can help protect your nest egg and your family's future.**

Sources: Forbes, Kiplinger, USA Today, IRS.gov, Medicare.gov, SmartAsset, Investopedia, The Balance, Kitces.com, TaxFoundation.org.

ZENIKI WEALTH
EXPERT ADVICE AT A FAIR PRICE

Disclosures: This communication is general in nature and for informational purposes only. Different types of investments involve varying degrees of risk, and there can be no assurance that the future performance of any specific investment, investment strategy, or product (including the investments and/or investment strategies recommended, or any non-investment related content, made reference to directly or indirectly in this commentary will be profitable, equal any corresponding indicated historical performance level(s), be suitable for your portfolio or individual situation, or prove successful. Due to various factors, including changing market conditions and/or applicable laws, the content of this brochure may no longer be reflective of current opinions or positions. Moreover, you should not assume that any discussion or information contained in this commentary serves as the receipt of, or as a substitute for, personalized investment advice. We are neither a law firm, nor a certified public accounting firm, and no portion of the commentary content should be construed as legal or tax advice.