Considerations for Retirement Planning

What tax situations will you face in retirement?

Presented by The Tax Guy

WHO AM I?

- My name is James Johnson
  - I am an Enrolled Agent
  - I have a B.S. in Business admin from UCR
  - I have a MS in Taxation from CSUF
  - I am the owner of The Tax Guy
  - I have an office in Fullerton
  - I have been doing taxes for 15 years
  - I have been presenting here for 11 years.

What we will cover today.

- New tax law changes.
- Social Security and how it affects your taxes.
- The difference between Traditional and Roth IRAs
- Selling assets such as your home or stocks.
- What are gifts and how do they affect you?
- Basic Tax planning strategies
- Basic Estate planning strategies

New Tax Changes to Watch Out For.

- Increased standard deduction. May not need to file or may not be able to itemize anymore.
- Standard deductions start at $13,850 for single and $25,900 for joint filers with additions for being over 65 or blind.
- RMDs can now be taken later. The age will increase to 73 in 2023. Only applies if you have not already taken your first RMD.
- Roth 401ks no longer have an RMD.

New Tax Changes to Watch Out For.

The following were part of the TCJA in 2018

- Limited deduction to mortgage interest.
  - only the interest on mortgages up to $750k is deductible.
- Limited deduction on your SALT Taxes.
- Misc. deductions such as investment costs are no longer deductible.

Tax Basics

- What is a marginal tax rate?
- How does that affect my taxes?

Social Security

- Is Social Security Taxable?

  The answer is MAYBE.

- How much is taxable?

  Depends on your other income.

Social Security

- Example #1:

  Bob Jones has the following income:

  - 1 W-2 for $10K (Wages)
  - 1 1099-R for $5K (Retirement Income)
  - 1 SSA-1099 for $15K (Social Security)

  In this case Bob’s Social Security is non-taxable and his AGI is $15k

Social Security

- Example #2:

  Bob Jones has the following income:

  - 1 W-2 for $10K (wages)
  - 1 1099-R for $25K (retirement income)
  - 1 SSA-1099 for $15K (social Security)

  In this case Bob’s Social Security is taxable. $11,725 of his SSA income will be included as income and now his AGI will be $46,725

Social Security

- Traditionally, the full benefit age was 65, and early retirement benefits were first available at age 62 at 80% of full . Currently, the full benefit age is 66 for people born in 1943-1954, and it will gradually rise to 67 for those born in 1960 or later. Early retirement benefits will continue to be available at age 62, but they will be reduced more. When the full-benefit age reaches 67, benefits taken at age 62 will be reduced to 70 percent of the full benefit and benefits first taken at age 65 will be reduced to 86.7 percent of the full benefit.
- An individual reaching the full-benefit age in 2023 (66 years) receives an additional 8 percent benefit for each year he or she delays collecting benefits. If he or she delays taking benefits until age 70, the benefit will be 32 percent higher because of that delay.
- 75 % of people claim Social Security before they reach the age for full benefits.

Social Security

- Remember that you can have taxes voluntarily taken out of social security with a W-4v
  - This can be at 7%,10%, 15% or 25%.
  - When your social security becomes taxable, it can increase your tax liability on your other income.

Individual Retirement Arrangements (IRAs)

- An IRA is a personal savings plan that has tax advantages for setting aside money for retirement. Contributions to a traditional IRA may be fully or partially deductible, based on AGI limitations.
- IRA contributions must be made by due date of the return (usually April 15).
- A taxpayer, or taxpayer and spouse if on a joint return, must have *earned income* in order to contribute to an IRA.
- There are two types: Traditional and Roth.

Traditional IRA - Defined

- A traditional IRA is an IRA where the deductible contributions, and earnings on those contributions, are not taxable until they are distributed. Nondeductible contributions are not taxable but the earnings are taxable when they are distributed.
- A traditional IRA can be established at many different financial institutions, such as banks, credit unions, insurance companies and brokerage firms.
- Deductibility of contributions may vary, based on circumstance and AGI limitations.
- Are there tax planning opportunities when you take an IRA distribution.

Roth IRA - Defined

A Roth IRA is also an IRA but operates somewhat differently than the traditional IRA.

For example, contributions to a Roth IRA are NEVER deductible.

Distributions from a Roth, if “qualified,” are NOT included in income in the year received while distributions from traditional IRAs may be included. Roth IRAs can be established at the same types of financial institutions as a traditional IRA.

Contributions to a Roth are treated differently than a Roth conversion.

Rolling Over a Retirement Plan

A rollover occurs when assets are withdrawn from one eligible retirement plan and all or part is placed in another eligible retirement plan within 60 days. This could happen when the taxpayer leaves one job and then takes another job.

The rollover amount is not taxable but it is reportable on the federal tax return. Partial rollovers may have a taxable portion.

Some distributions that cannot be rolled over include:

- A required minimum distribution, or
- A hardship distribution.

Any taxable amount that is not rolled over must be included as income in the year received.

A trustee-to-trustee transfer or a same trustee transfer can be done without the participant receiving the distribution.

Converting a traditional IRA to a Roth IRA?

Yes, he or she can convert funds from a traditional IRA to a Roth IRA by:

- **Rollover – Personally receive the traditional IRA distribution and contribute it to a Roth IRA within 60 days after distribution.**
- **Trustee-to-trustee transfer – Direct the trustee of the traditional IRA to transfer an amount from it to the trustee of a Roth IRA at another firm.**
- **Same trustee transfer – Direct the trustee to transfer some of the traditional IRA funds to a Roth IRA in the same firm. Or convert the entire traditional IRA by redesignating the account as a Roth IRA.**

All earnings and any amounts from a traditional IRA that were deductible when contributed will be TAXABLE in the year converted to a Roth. The adjusted gross income limit has been removed.

Roth Conversions

- The modified AGI and filing status requirements for converting a traditional IRA to a Roth IRA has been eliminated.
- With careful planning, these may be able to be done with minimal tax consequences.

Inherited IRA

- When you inherit an IRA, you must deplete the account in 10 years.
- If you inherit it from a spouse, the rules are different.
  - You can choose to be a beneficiary or the owner of the account. Tax planning opportunities exist depending on the choice as RMDs depend on what election you make.

IRA Limits

Taxpayers may contribute the lesser of either $6,500 or their taxable compensation for the year to a traditional or Roth IRA.

If age 50 or older, taxpayers may contribute the lesser of $7,500 a year or taxable compensation for the year to a traditional or Roth IRA. These limits are for 2023.

Traditional IRA Roth IRA

Can contribute at any age.	Can contribute at any age.
May be able to deduct contributions.	Can never deduct contributions.
Must file Form 8606 when making nondeductible contributions.	Never have to file a form when making contributions.
Distributions (deductible contributions and earnings) are taxed as ordinary income when withdrawn.	Qualified distributions are not taxed when withdrawn. (If not qualified, only the earnings portion is taxed.)

Can a taxpayer contribute to a traditional IRA if he or she has another retirement plan?

- Yes, a taxpayer can contribute to a traditional IRA whether or not he or she is covered by another retirement plan. However, the taxpayer may not be able to deduct all of the contributions if he or she (or the spouse, if filing jointly) is covered by an employer-sponsored retirement plan.

Note that contributions to a Roth IRA are not deductible and income limits DO apply.

See Publication 590 for further information.

Donating your IRA

- You can donate \$100k of your IRA to a qualified charity, and not have to pay taxes on the withdrawal. You must have reached 70 ½ years of age. This has been made a permanent part of the tax code.

Selling assets

- What is an asset?
  - Your primary home.
  - Stocks
  - Bonds
  - Collectibles
  - Rental Properties
  - Digital Assets

Selling assets

- How does selling an asset affect my taxes?
  - The profit from any asset will be considered income and will increase your overall tax liability.
  - How does the death of my spouse affect my assets.

Selling Assets

- When I sell an asset, how much do I have to pay taxes on?
  - There is a lot that goes into determining how much income will be included from the sale of an asset and how it will be taxed.
    - How much was it sold for?
    - How much did you buy it for?
    - When did you buy it?
    - What type of property is it?
    - What were the costs to sell the item?

Selling Assets

- Transactions to be cautious with:
  - Day Trading.
    - Day trading can have a serious impact on your taxes. You must report each transaction you make on your taxes.
  - Crypto Currency – Despite popular belief, this is a taxable asset, just like stocks. You even have to disclose if you owned it.
  - Selling your main home. – may not be taxable.
  - Does not apply to assets in a retirement plan.

Deductions

- Medical expenses
  - Only medical expenses over 7.5% of your AGI are deductible. You must also itemize to take advantage of this deduction.
- Mortgage Interest
  - As a mortgage progresses, less and less interest will be paid annually. This can have a serious effect on your taxes if you itemize.
  - HELOCS may not be deductible anymore.

Deductions (LIMITS)

- SALT (State And Local Taxes
  - This includes state taxes paid
  - Real estate taxes paid
  - DMV fees paid
  - All limited to $10k max each year.
- Mortgage Interest
  - Limited to first $750k combined on all eligible properties.

Misc. items to consider

- Estate and gift taxes.
  - Lifetime $12,920,000 (set to sunset in 2025 and reset to 2017 levels)
  - Annual $17,000 per person per taxpayer.
  - Lifetime exclusion applies to the year given.
- ID Theft
- “Bunching dontations”

Gift planning

- Donor pays the taxes, not the donee.
- assets like cash, not appreciated assets.
- Gifted assets retain basis while inherited assets get stepped up basis.
- Gifting money to a 529 plan
  - 529 plans can be converted to Roth IRAs
    - $35k lifetime max.
    - Annual limits apply

Retirement Planning

- Age 50 - you can contribute additional amounts to your IRA or employer plan
- Age 59 1/2 - you can begin to withdraw money from your IRA or employer plan without paying the additional 10% tax
- Age 65 - your standard deduction increases; you may be eligible for the credit for the elderly
- Age 73- you must begin to receive a required minimum distribution from your IRA or pension by April 1st of the year following the year in which you reach 73)

Thank You!

- If you have any questions about this presentation, please feel free to reach out to me.

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