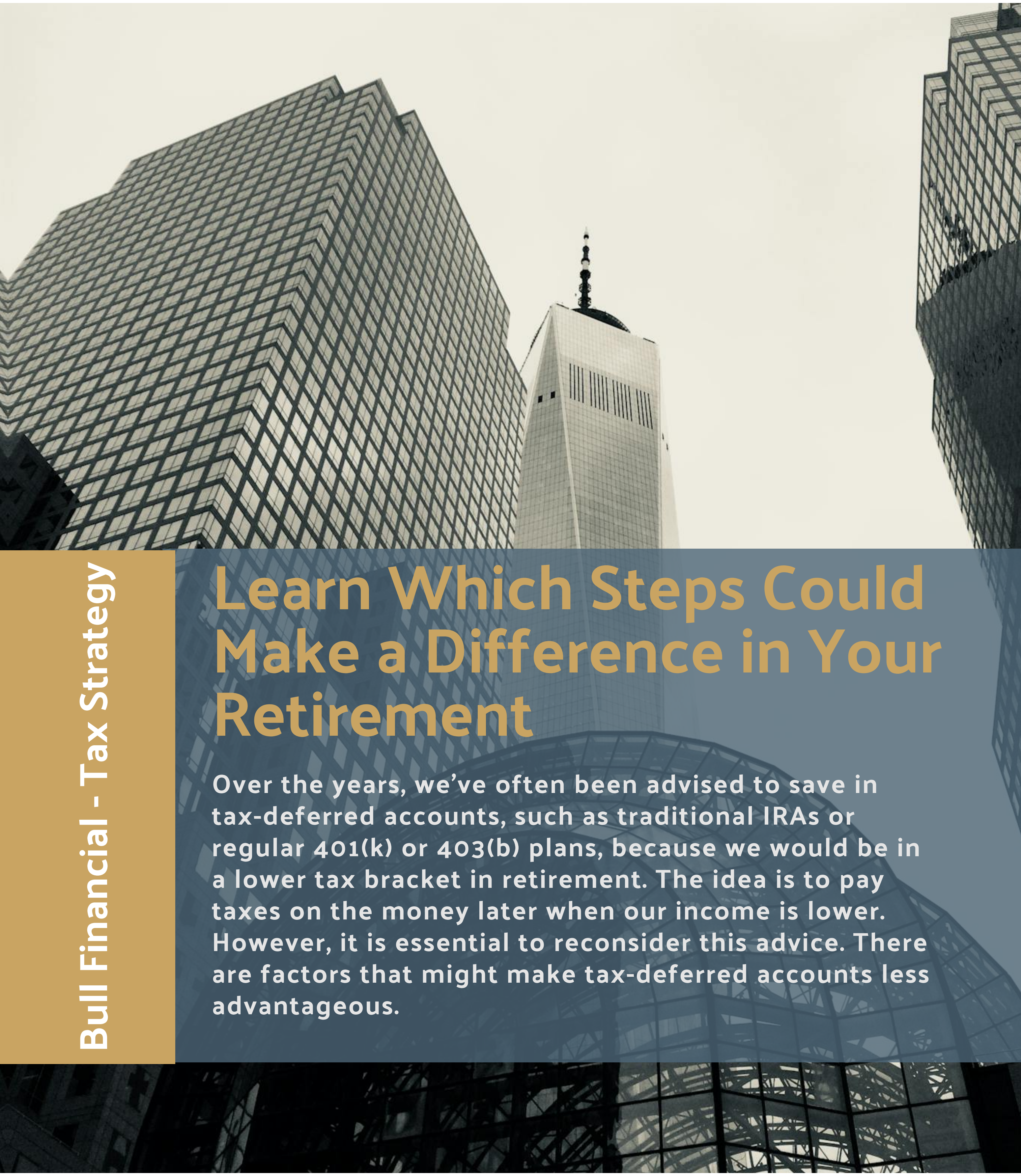
COULD TAXES DIMINISH MY RETIREMENT SAVINGS?



Bull Financial - Tax Strategy

Learn Which Steps Could Make a Difference in Your Retirement

Over the years, we've often been advised to save in tax-deferred accounts, such as traditional IRAs or regular 401(k) or 403(b) plans, because we would be in a lower tax bracket in retirement. The idea is to pay taxes on the money later when our income is lower. However, it is essential to reconsider this advice. There are factors that might make tax-deferred accounts less advantageous.

Questions to Consider

To shield yourself from possible rising income taxes

1. Will Federal and State income tax rates keep rising?
2. Do I really need a tax deduction now?
3. How will the growth on my accounts be taxed in the future?
4. Even if future tax rates aren't higher, could I end up in a higher tax bracket at age 73 or 75 due to Required Minimum Distributions (RMDs)?
5. Are Roth IRAs subject to Required Minimum Distributions?
6. When are my contributions to Roth IRAs, Roth 401(k)s, and Roth 403(b)s subject to income tax?
7. Will withdrawing from my Roth accounts cause my Social Security benefits to be taxed?
8. Can Roth Conversions help an overweight Tax-Deferred Portfolio?
9. What is the downside of doing a Roth Conversion?

Read Further To Find Out More

Will Federal and State Income Tax Rates Keep increasing?

While we can't predict the future of taxes with certainty, we can examine the current situation. Our nation has amassed over $32 trillion in debt, a figure that continues to grow annually. The two largest components of the federal budget, Medicare and Social Security, are also expected to increase as the Baby Boomer generation transitions from contributing to drawing benefits. Additionally, rising interest rates have increased the interest payments on the national debt, making it a more significant portion of the budget. It is projected that before the end of this decade, interest will become one of the largest budget items, potentially overshadowing other important national needs. To address these needs, experts predict that tax revenue will likely need to increase, resulting in higher income taxes.

Do I Really Need A Tax Deduction Now?

When you're in your prime working years, you might assume you need a tax deduction. However, if you're already in the 22, 24, 35% or even 37% tax bracket, will that tax deduction significantly impact your taxable income? Will it lower your bracket?

If you're near the top of a tax bracket, a tax deduction, even for two working spouses contributing pre-tax dollars to separate 401(k) accounts, might not push you into a lower bracket. Even if it does, what does it actually mean in terms of tax dollars saved? Relative to your earnings, the savings might not be substantial. More importantly, if tax rate predictions are accurate, wouldn't you prefer to pay those taxes today at the current rate rather than during your retirement years when rates could be higher?

The next section addresses an often overlooked topic–the growth on your money that becomes taxable when you contribute pre-tax dollars.

How Will the Growth on My Accounts Be Taxed in the Future?

Remember, when you add money to your Tax Deferred account as a pre-tax contribution that will be taxed upon withdrawal, you're also agreeing that the growth on that contribution is subject to future taxation.

For example, if your $10,000 contribution saves you $2,500 today at an effective tax rate of 25%, in 10 years, if that account grows to $20,000 (assuming an annual growth rate of about 7%), the IRS can tax both the initial $10,000 and the $10,000 gain at the future tax rate. As you calculate this growth over time, you can quickly see the potential cost.

YOUR PORTFOLIO GROWTH SHOULD BE YOURS!

Even If Future Tax Rates Aren't Higher, Could I End Up in A Higher Tax Bracket at Age 73 Or 75 Due to Required Minimum Distributions (RMDS)?

RMDs often cause concern for those who don't fully understand them. For example, if you and your spouse together have $3,000,000 in your collective IRAs and 401(k)s, the initial RMD that must be withdrawn when you both reach age 73 is around $109,500.

While you aren't required to spend these funds, you must withdraw this amount from your Tax Deferred account, making it subject to federal and state income taxes. This withdrawn amount must be deposited into your regular savings or brokerage account and cannot be reinvested into the Tax Deferred account.

Now, add 85% of your Social Security benefits and 100% of any pension benefits to this amount to calculate the total income subject to taxation. You can see how your taxable income could easily reach the same level as it was during your working years. Just because you don't have earned income doesn't mean you don't have taxable income!

Are Roth IRAs Subject to Required Minimum Distributions?

No, Roth IRAs are not subject to Required Minimum Distributions, allowing you to control how much you withdraw in retirement and, to some degree, manage your tax bracket.

When Are My Contributions to Roth Iras, Roth 401(K)S, and Roth 403(B)S Subject to Income Tax?

These contributions are only subject to income tax at the time of contribution. The growth on those contributions will not be taxed at any time. All of that growth belongs to you!

Will Withdrawing from My Roth Accounts Cause My Social Security Benefits to Be Taxed?

No, withdrawals from any type of Roth account are not considered ”provisional income” for determining how much of your Social Security benefits will be subject to tax.

Can Roth Conversions Help an Overweight Tax-Deferred Portfolio?

Yes, there are no age, income, or cash amount restrictions that prevent you from opening a Roth Conversion account.

The key consideration is how you will pay the taxes due as a result of the conversion. If you are over 59.5, you can use the money in the account to pay the income taxes. If you are younger than 59.5, you must use an outside account to pay the tax liability to avoid a 10% penalty. The conversion will permanently move the amount to a new Roth Conversion account that will then grow tax-free and remain tax-free upon withdrawal.

Be sure to perform the conversion properly so it will be free from RMDs, will not cause your Social Security benefits to be taxed, and can be inherited by your heirs tax-free.

What is the Downside to Doing a Roth Conversion?

Downsides to performing a Roth Conversion is the immediate tax liability and potential Medicare IRMAA surcharges. Some argue that the upfront taxes could have been saved, resulting in an opportunity cost from the investment growth of those dollars. While this is true, it's important to have an experienced financial professional analyze your circumstances to potentially offset the opportunity cost.

Converting also benefits you by keeping future RMDs lower, resulting in associated tax savings. Your financial professional can help calculate the best options for your Roth Conversions over the next few years until the tax laws change again. Currently, tax laws are set to sunset at the end of 2025, so now is an ideal time to plan your Roth Conversions.

ASK YOURSELF WHAT IS MORE IMPORTANT:
THE AMOUNT THAT YOU SAVE IN TAXES TODAY OR
THE AMOUNT THAT YOU SAVE IN TAXES OVER YOUR LIFETIME.

Bull Financial Has Extensive Experience in Roth Retirement Planning.

Roth planning is not a simple task, as everyone's specific situation creates their own answers and path to a tax-efficient retirement.

How do I make sure that I don't contribute or convert too much to a Roth vehicle?
Schedule a brief 15 minute call with Bull Financial via phone, e-mail or online at https://Bull.Financial to better understand if Roth planning could help your specific retirement situation.

Bull Financial Tax Strategy

Ready to get started?

Contact Us Today to
Start Planning Your Future

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Clients Matter