

**Tax Mistakes  
That Cost  
Retirees  
Thousands**

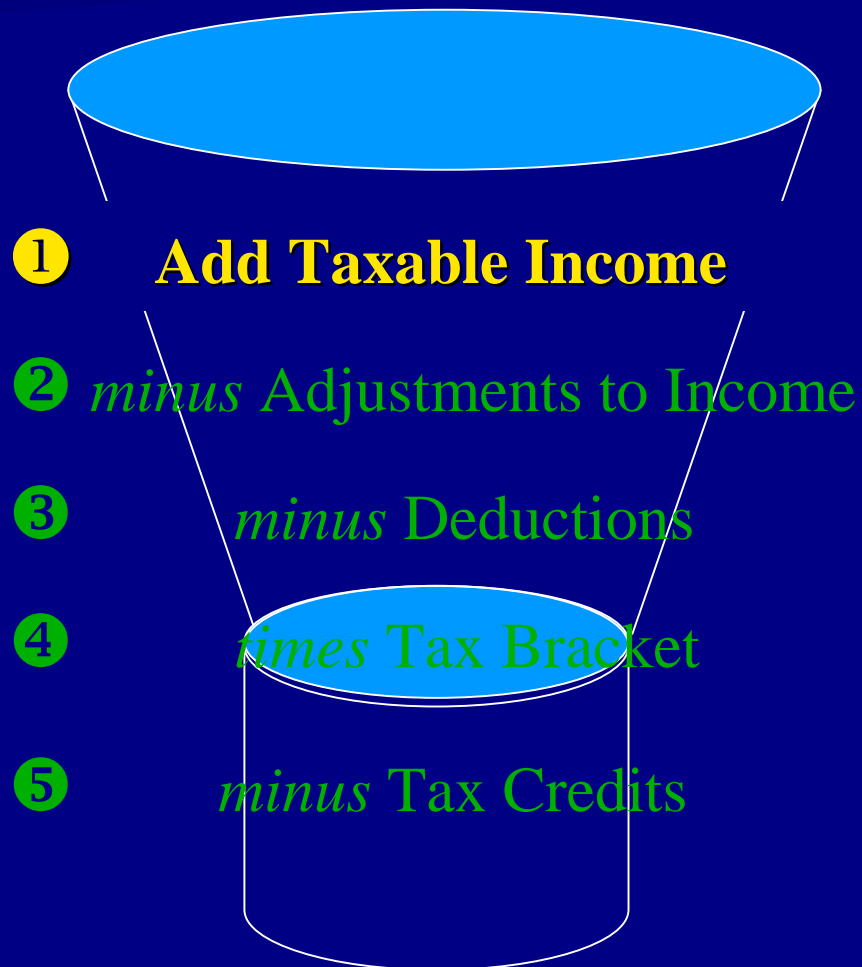
# #1 Mistake: Failing to Plan

“There is nothing wrong with a strategy to avoid the payment of taxes. The Internal Revenue Code doesn’t prevent that.”

*William H. Rehnquist*

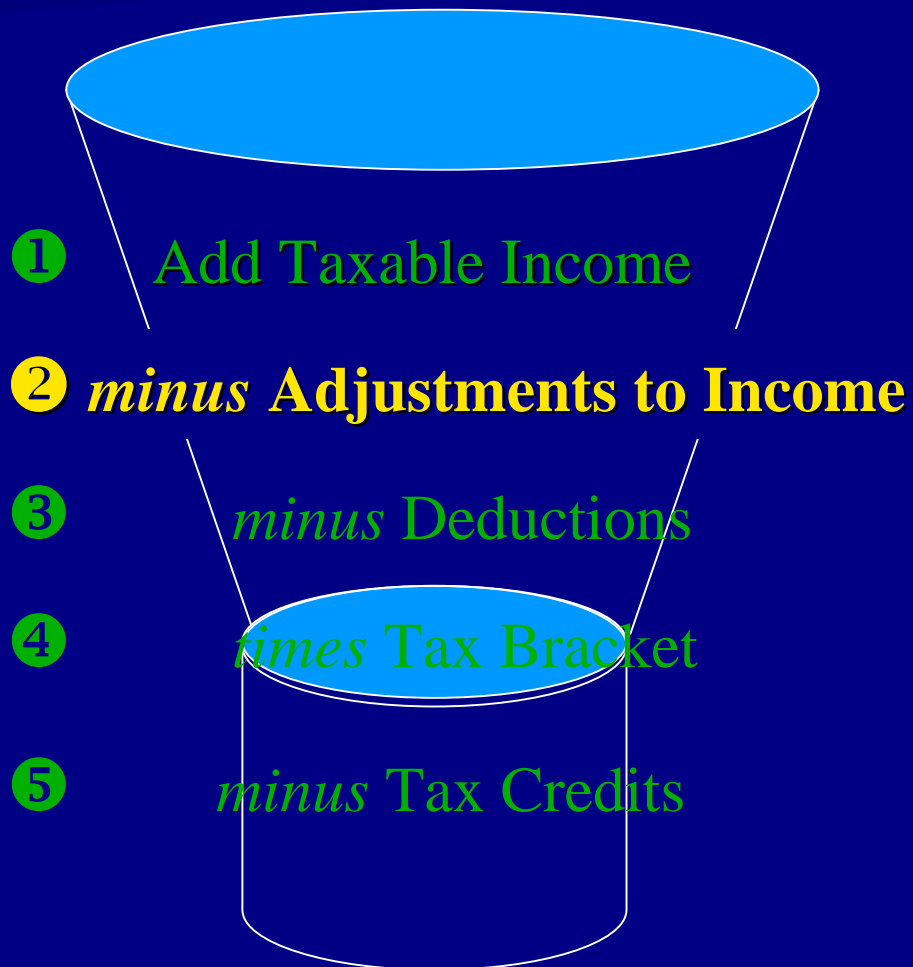
1. Tax planning is financial defense
2. Tax planning gives predictable results

# Taxable Income



- Earned income
- Interest/dividends
- Capital gains
- Pension/IRA/Annuity
- Social Security benefits
- Alimony
- Gambling winnings
- Illegal income

# Adjustments to Income



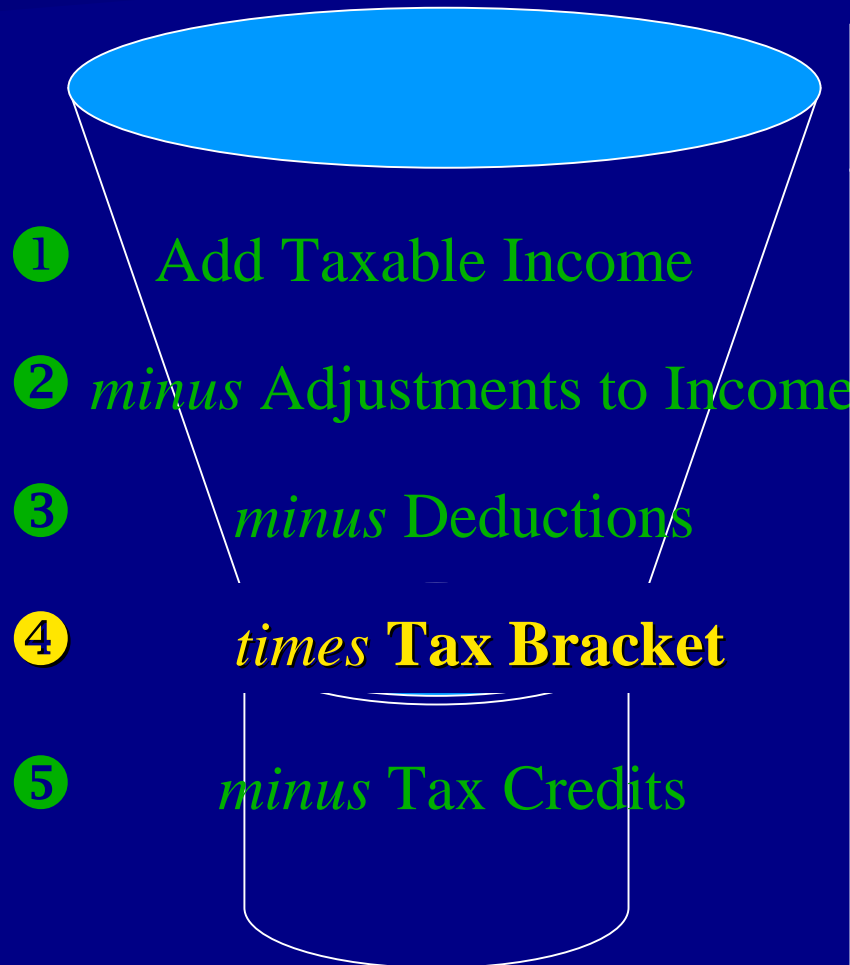
- IRA contributions
- Moving expenses
- ½ SE tax
- SE health insurance
- Keogh/SEP
- Alimony
- Student loan interest

# Deductions/Exemptions

- 
- 1 Add Taxable Income
  - 2 *minus* Adjustments to Income
  - 3 *minus* **Deductions/Exemptions**
  - 4 *times* Tax Bracket
  - 5 *minus* Tax Credits

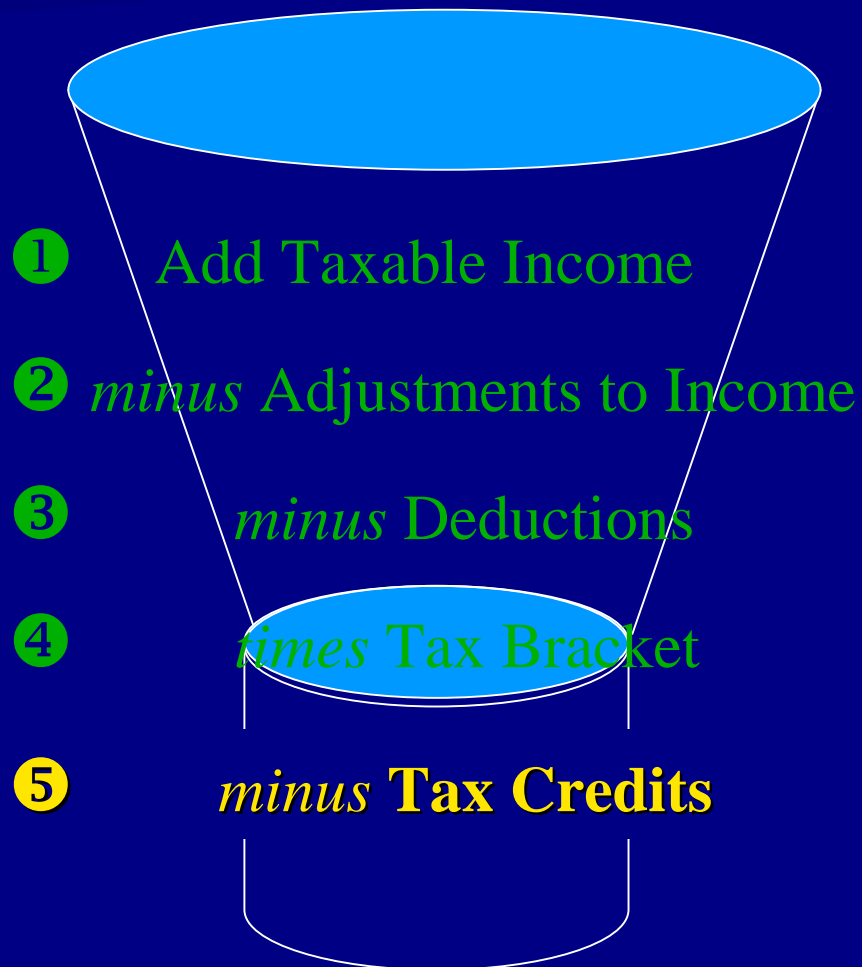
- Medical/dental
- State/local taxes
- Foreign taxes
- Interest
- Casualty/theft losses
- Charitable gifts
- Miscellaneous itemized deductions

# Tax Brackets



Rate	Single	HoH	Joint
<b>10%</b>	0	0	0
<b>15%</b>	7,826	15,601	15,601
<b>25%</b>	31,851	63,701	63,701
<b>28%</b>	77,101	128,501	128,501
<b>33%</b>	160,851	198,851	195,851
<b>35%</b>	349,701	349,701	349,701

# Tax Credits



- Family credits
- Education credits
- Foreign tax
- General business
- Low-income housing
- Renovation

# Two Kinds of Dollars

- 
- ① Add Taxable Income
  - ② *minus* Adjustments to Income
  - ③ *minus* Deductions
  - ④ *times* Tax Bracket
  - ⑤ *minus* Tax Credits

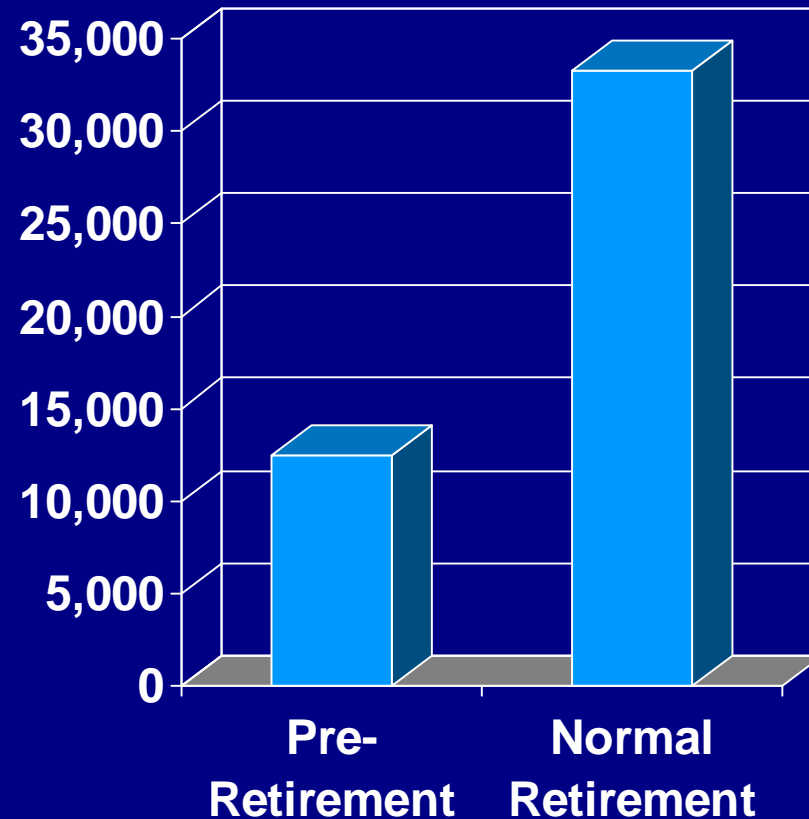
**Pre-Tax Dollars**

**After-Tax Dollars**

# #2: Tax on Social Security

## Earnings Penalty

- Pre-retirement age
- Normal retirement age



# #2: Tax on Social Security

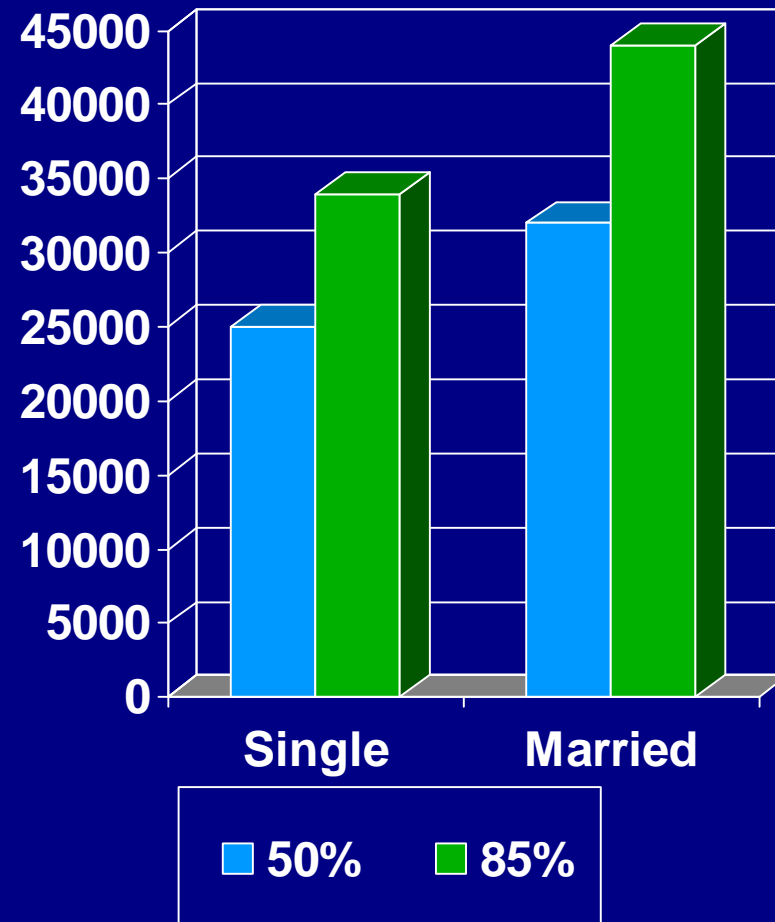
Tax on Benefits:

Taxable income

+ Tax-free interest

+ 50% of Social Security

Provisional income



# Investment Alternatives

Avoid “provisional income”

- Permanent life insurance
- Immediate annuity
- Fixed/variable annuity
- Tax-advantaged income generators

# #3: IRA Rollover Mistakes

Plan Type	401k, 403b	IRA
Consolidate Accounts	No	Yes
Investment flexibility	No	Yes
"Stretch" distributions	No	Yes
"Net Unrealized Appreciation"	No	Yes
Trust beneficiary	No	Yes

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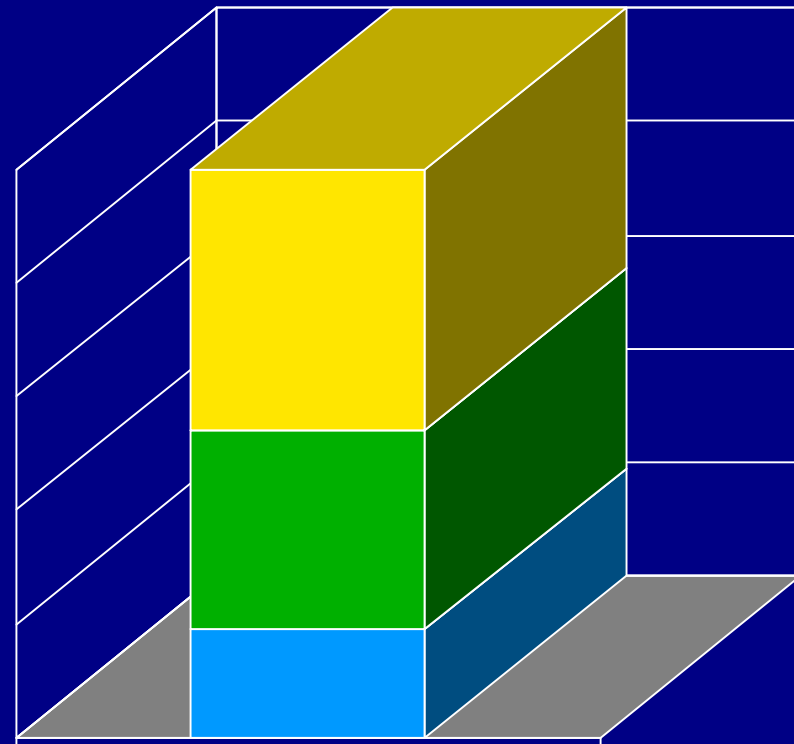
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# #4: IRA Confiscation

IRA Balance

- Federal Estate Tax
- State Estate Tax
- Federal income tax
- State income tax

Net to family

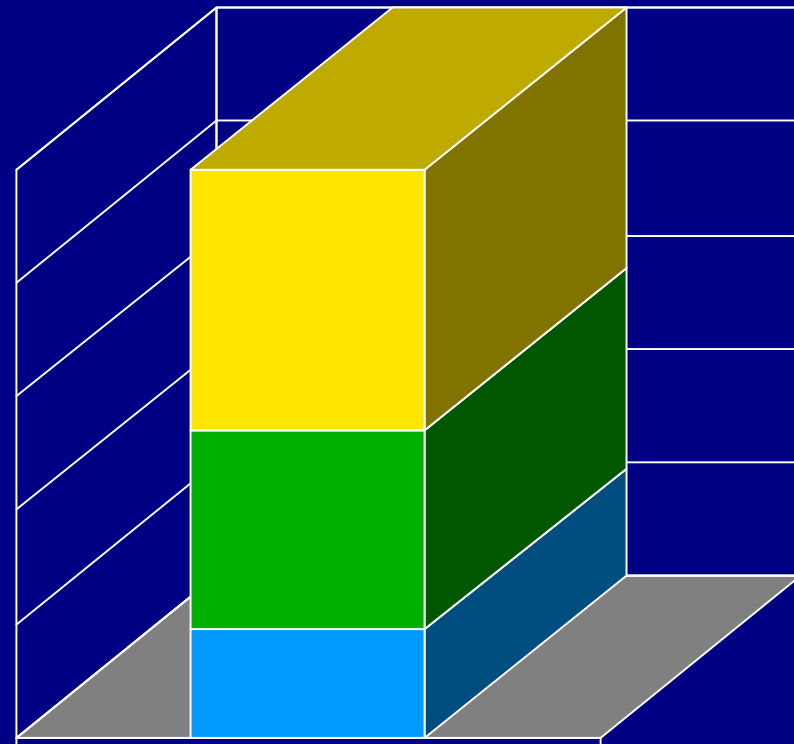


- Estate Tax
- Income Tax
- Net to Family

# #4: IRA Confiscation

## Solutions:

- Roth conversion
- “Stretch” IRA
- Trust beneficiary
- Charitable beneficiary
- Life insurance trust



- Estate Tax
- Income Tax
- Net to Family

# #5: Minimum Distributions

- Based on Dec. 31 balance
- Start by April 1 of the year *after* reaching 70½
- Waiting can mean *two* distributions in first year
- Taxed as ordinary income
- Included in “provisional income”
- 50% penalty tax

Life Expectancy	
Age	Period
70	27.4
75	22.9
80	18.7
85	14.8
90	11.4
95	8.6

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# #6: Wrong IRA

IRA Type	Regular	Roth
Taxable withdrawals?	Yes	No
Included in provisional income?	Yes	No
Required minimum distributions?	Yes	No
Income taxed to beneficiaries?	Yes	No

# Roth IRA Conversions

## Can You?

- “MAGI” <\$100,000
- If married, joint filer

## Should You?

- Tax rates?
- Where will you find the money to pay the tax?
- Age 59½?
- How long can you let the account grow?

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# #7: Missing Income Shifting

- Shift investment income and appreciation to lower-bracket family members
- Children/grandchildren age 18 and up
- Vehicles & entities
  - Custodial accounts
  - Trusts
  - Family limited partnership or LLC

# #8: Missing Tax Coaching

- True Tax Planning
- Written Tax Plan
  - Family, Home, and Job
  - Business
  - Investments
- Review Returns