



Tax and financial planning tips: Retirement

Retirement is an exciting time. After a lifetime of hard work, you're finally ready to focus on family, travel and hobbies. But just because the work stops doesn't mean taxes do. When your income is fixed, taxes can take on a whole new hue. Whether you're retiring now or simply thinking about your future, here are some things you should know about taxes and retirement.

As you consider budgeting for your retirement, don't forget that certain taxes don't discriminate based on employment. These include property taxes, sales taxes, special assessments from your city or state, etc. Adding these up and making sure you set a proportional amount aside monthly will make paying them much less painful.

To tax now or later?

As you choose your retirement vehicles, you'll find you have options as to when you pay the taxes. Some contributions are made with after-tax dollars and provide no immediate tax benefit. When the time comes for you to draw down from these accounts, your distributions are tax-free. Other vehicles tax distributions as regular income or, in some cases, as capital gains. Your CPA will help you plan strategies both for choosing your vehicles and also for which to begin drawing down first.

Planning tip: Consider the timing of income tax rates.

When choosing between different types of retirement accounts, be sure to think about the impact of your tax rate before and after retirement. Ultimately, you will want to choose vehicles that allow for deferring income while in high tax rate years and recognizing taxable income in lower tax rate years.

What are some of my options?

Company retirement plans 401(k) or 403(b)

provide a great way to save for retirement since the funds are reducing your current income and often companies will provide a match or a company contribution to incentivize participation. In 2019, you can contribute up to \$19,000 (\$24,000 for those age 50 and over). If you leave a company, you can generally roll over the balance in the account into an IRA. There is also the ability to borrow against these funds while you are still working at the company and the loan will not be considered a taxable distribution as long as you meet the payback obligations of the company's plan.

A **Roth IRA** (Individual Retirement Account) is a special account that allows tax-free growth and tax-free distributions once you've reached appropriate retirement age, assuming you've held the account for at least 5 years. You make contributions with funds you've already paid taxes on. Deposits are limited to \$6,000

annually or \$7,000 if you're over age 50. Roth IRA contributions are subject to income limitations, meaning some people earn too much money to qualify. Your CPA will be able to help you determine if you qualify and can also help you convert a traditional IRA to a Roth IRA if this is a good strategy for you.

A **Traditional IRA** may provide an income tax deduction when the contribution is made. The distributions generally are subject to normal income taxes. By April 1 of the year following the year in which you turn 70½, you must take a required minimum distribution (RMD). Each subsequent year will require you to take the RMD by Dec. 31. This amount is based on your account balance and your life expectancy. Your tax exposure will vary according to your circumstances, including whether you choose to withdraw more than the RMD annually. In these cases, you'll be taxed according to your regular income bracket.

Stocks and other traditional investments

aren't taxed any differently in retirement than they are in your working years. If your investments offer dividends that pay periodically, these are treated as investment income that may be eligible for a preferred rate. Otherwise, they'll be taxed as income, potentially subject to ordinary rates. If you sell securities, they'll be taxed as capital gains if they have increased in value. Exceeding certain thresholds exposes investors to an additional

3.8% tax above regular capital gains. Similarly, you may be able to write off losses — this could be a useful strategy depending on your situation. Your CPA can help you decide.

Financial planning tip: Consider asset

location Asset location means evaluating investments to determine where they should be held to gain the best possible after-tax rate of return.

Deductibility

In retirement, it's important to stretch your savings as far as you can. Have a conversation with your CPA about reviewing your available deductions, to learn if they exceed the standard deduction. Some of these might become more relevant in your retirement.

Selling your home in retirement is common. Many retired people find their current home is too large, lacks necessary features or isn't laid out to accommodate their mobility needs. Others find they can sell their current home for more than a suitable replacement home will cost, providing them with extra income in their retirement. While your CPA will help review your needs and make suggestions, there are a few items to keep in mind when considering selling your home.

- Is it your primary residence?
- If selling a primary residence, have you lived in the home for more than two of the five years before your sale?
Additionally, have you owned the home for two of the past five years?

- Did you sell another property within the past two years for which you claimed a capital gains exclusion?

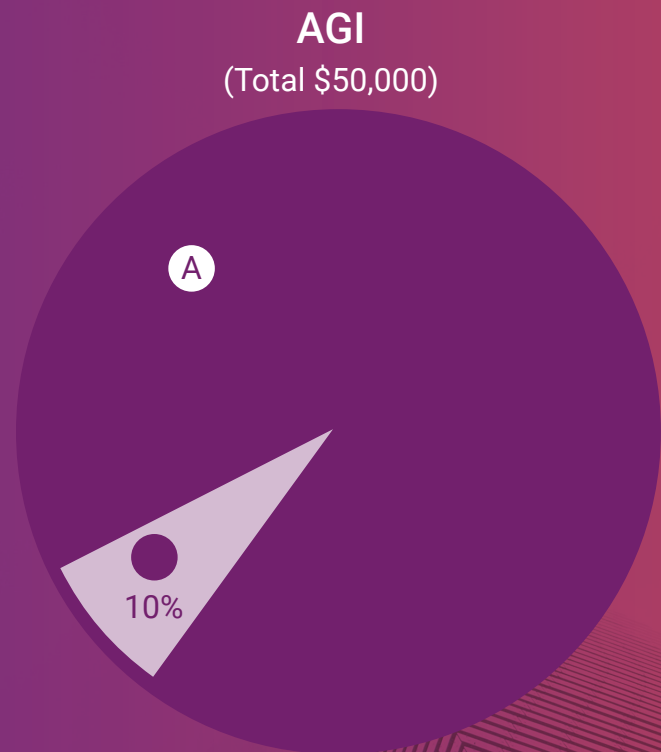
Answers to these questions and others will help your CPA determine if you'll be exposed to any taxes when selling your home. In general, single individuals may exclude up to \$250,000 gain on sale of a primary qualifying residence, while married couples filing jointly may exclude up to \$500,000 gain.

Fast facts: Health care expenses

Health care expenses can soar in retirement, making an itemized return preferable to taking the standard deduction. If your unreimbursed qualifying medical expenses exceed 10% of your adjusted gross income (AGI), you can deduct the amount of the expenses that exceed the 10% level.

Example: \$50,000 AGI

- A \$20,000 unreimbursed qualifying medical expenses
- B \$15,000 qualifying deduction



For example, if you have \$50,000 AGI and your unreimbursed qualifying medical expenses for the year are \$20,000, you can deduct \$15,000 (\$5,000 of the expenses represents the 10% of your AGI that does not qualify and is therefore subtracted from the qualifying deduction). Your standard deduction will vary depending on how your filing status, so your CPA will be your best resource for determining if itemization is a good idea. Major illnesses, chronic conditions and hospitalization can add up quickly. You can help by keeping careful track of what unreimbursed qualifying medical expenses you have during the year.

Losses

Certain losses are deductible and might provide a tax advantage. Casualty and theft losses have certain restrictions, including that they must exceed \$100, be in excess of 10% of AGI and cannot have been reimbursed by insurance. These losses also must be attributable to a federally declared disaster.

Losses on the sale of investments are also deductible, but there are limits that your CPA can discuss with you. Strictly speaking, there can be some very good reasons to claim losses on your return, so be certain you make your CPA aware when you have sold any holdings at a loss.

If you enjoy gambling, these losses are also deductible, but only to the extent that they offset winnings during the same tax year. Any gambling-related expense is deductible in this fashion. This includes travel, lodging and food, for example.

Financial planning tip: Losses

If you have investments that have lost value, consider opportunities to use those losses to offset any gains realized during the year.

Miscellaneous tax and financial planning tips

Retirement saver's credit — This \$1,000 credit is available for individuals that make contributions to IRAs and workplace plans. The credit starts to phase out at \$64,000 for married individuals filing jointly and \$32,000 for single filing status.

Bunching deductions — It may be beneficial to bunch multiple years of deductions into a single tax year. For example, bunching multiple contributions together — rather than contributing smaller amounts annually — may help you exceed the standard deduction and receive a larger tax benefit.

Consider a ROTH conversion — You may find yourself in a low tax bracket throughout the years following retirement prior to starting required minimum distributions and social security benefits. You may want to consider taking advantage of these low tax brackets with partial Roth conversions. You should work with your CPA to compute how much you can convert each year without bumping you into a high tax bracket.

Financial planning tip: Making charitable gifts from your IRA

If you are over 70½, consider contributing from your IRA to a qualified charity. This can be a way to satisfy your RMD for the year and exclude the amount from income.

Gifts

One of the pleasures of retirement is sharing what you have accumulated with loved ones. It's wise to be familiar with the limits on gifts so you're aware of what taxes you might incur.

\$15,000

The amount in 2019 you may give any person annually without tax consequences. The \$15,000 exclusion is per person, so if you're married, both you AND your spouse can each give the same person \$15,000 in any one year.

\$11.4 million

The lifetime estate and gift tax exemption per person.

Gift transfers

They are always tax-free between spouses.

Gift tax return

Gifts to anyone other than your spouse that exceed that annual limit will reduce the \$11,400,000 estate exclusion rather than being taxed currently. This means that for the vast majority of gifts, you'll never owe any actual tax. However, if your gift's value to a single recipient who isn't your spouse exceeds \$15,000 for a single year, you'll be required to file a gift tax return. Your CPA can provide you additional guidance in your specific situation.

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