FOCUS ON FINANCE

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How to Pay Less Tax on Retirement Account Withdrawals:

USNews.com by Emily Brandon

April 2022

Avoid penalties and minimize taxes as you pull money out of your 401(k) or IRA.

Decrease your tax bill. You don't get to use all the money in your traditional 401(k) and IRA for retirement because you still have to pay taxes on it. However, there are several ways to minimize taxes as you pull money out of your retirement accounts. Consider these strategies to decrease the tax bill on your retirement account withdrawals.

Avoid the early withdrawal penalty. If you withdraw money from your traditional IRA before age 59 1/2, there's a 10% early withdrawal penalty, and that is in addition to the income tax due on each withdrawal. However, you can take penalty-free 401(k) withdrawals beginning at age 55 if you leave the job associated with that 401(k) account at age 55 or later. You may also be able to avoid the IRA early withdrawal penalty if you use the money for a specific purpose, such as a large medical bill, college costs or a first home purchase.

Roll over your 401(k) without tax withholding. If you withdraw money from your 401(k) when you change jobs, 20% will be withheld for income tax. If you don't put the entire distribution, including the withheld 20%, into a new retirement account, you could owe income tax and the early withdrawal penalty on the amount withdrawn. However, you can avoid the tax withholding and the potential to trigger penalties and fees if you transfer the money directly from your 401(k) to the trustee of another 401(k) or IRA. Income tax will not be withheld from a trustee-to-trustee transfer.

Remember required minimum distributions. You are required to withdraw money from your traditional 401(k) and IRA after age 72. The penalty for missing a required minimum distribution is 50% of the amount that should have been withdrawn in addition to the income tax due on the withdrawal. However, if you are still working after age 72 and don't own 5% or more of the company you work for, you can continue to delay 401(k) withdrawals from your current employer's account, but not IRA withdrawals, until you actually retire.

Avoid two distributions in the same year. Your first required minimum distribution is due by April 1 of the year after you turn 72 (70 1/2 if you were born before July 1, 1949). Your second and all subsequent distributions must be taken by Dec. 31 each year. If you delay your first distribution until April, you will be required to take two distributions in the same year, which could result in an unusually high tax bill or even bump you into a higher tax bracket. Take care to calculate whether it would reduce your tax bill to take your first and second required minimum distributions in separate tax years.

Start withdrawals before you have to. While you don't have to begin traditional retirement account withdrawals until after age 72, taking smaller distributions beginning during your 60s spreads the tax bill over more years and could allow you to stay in a lower tax bracket and reduce your lifetime tax bill.

Taking 401(k) and IRA withdrawals during a low-income year, such as after you retire but before starting Social Security payments, could allow you to pay a lower income tax rate on your retirement savings.

For example, you can calculate how much you can withdraw from a retirement account each year at the 12% tax rate.

Donate your IRA distribution to charity. Retirees who are age 70 1/2 or older can avoid paying income tax on IRA withdrawals of up to $100,000 ($200,000 for couples) per year that they donate to charity. A qualified charitable distribution must be paid directly from your IRA to a qualifying charity. You don't need to itemize your taxes to make an IRA charitable distribution, and you can donate to multiple charities. An IRA charitable contribution will satisfy the minimum distribution requirement. You can also donate part of your required minimum distribution to charity and withdraw the rest as income.

Consider Roth accounts. Putting some of your retirement savings in an after-tax Roth account could set you up for tax-free investment growth and tax-free withdrawals in retirement. While you don't get a tax deduction in the year you contribute to a Roth IRA or Roth 401(k), you don't have to pay income tax on the investment growth in the account and withdrawals in retirement from an account at least five years old are typically tax-free. If you expect to be in a higher tax bracket in retirement, a Roth account also allows you to lock in today's low tax rate.

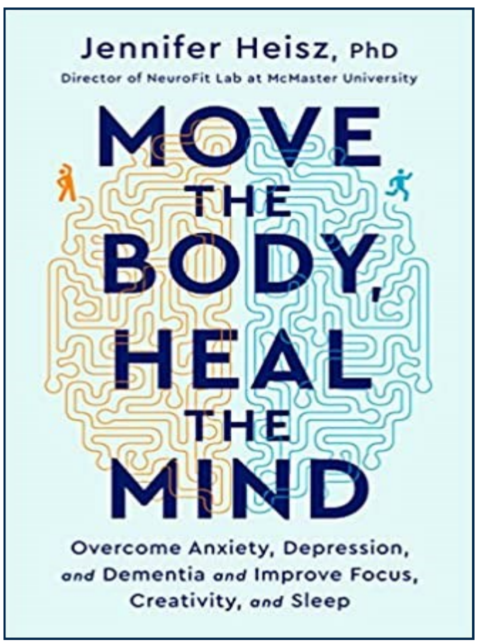
Keep tax-preferred investments outside retirement accounts. Investments that generate long-term capital gains receive preferential tax treatment when held outside of a retirement account. However, if you put them in a retirement account, you will pay your typically higher regular income tax rate when you withdraw the money from the account. In contrast, you can lower your tax bill by holding more highly taxed investments, including Treasury inflation-protected securities, corporate and government bonds and funds that generate short-term capital gains, inside retirement accounts.

Reduce taxes on 401(k) and IRA distributions. Here's how to minimize 401(k) and IRA withdrawal taxes in retirement:

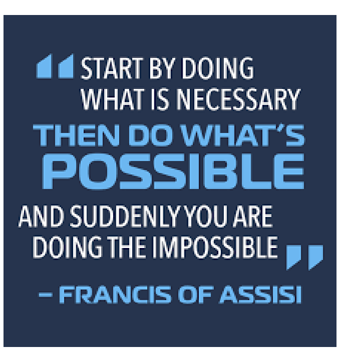
- Avoid the early withdrawal penalty.
- Roll over your 401(k) without tax withholding.
- Remember required minimum distributions.
- Avoid two distributions in the same year.
- Start withdrawals before you have to.
- Donate your IRA distribution to charity.
- Consider Roth accounts.

In observance of Good Friday our offices will be CLOSED April 15.

Recommended Reading



Quote of the Month



Workshop:

TAXES IN RETIREMENT & DEATH

Tuesday, April 12

4:00 PM

Hardin County Public Library
100 Jim Owen Drive
Elizabethtown, KY 42701

Please pre-register:

270-723-2225

or Melanie@wrightlegacy.com

Speakers:

Wm. Steve Wright, Financial Advisor &
Cynthia Griffin, Estate Planning Attorney

- Is Social Security taxable?
- Will my taxes go up or down?
- What is The Secure Act?
- What is The Death Tax?

The Wright Word Search

As you look for the hidden words, remember that they can be horizontal, vertical, diagonal, frontward or backward!

PUZZLE ENTRY DEADLINE:
Friday, April 29, 2022

Name: ____

Address:____

Word List

SERATSTEGI________________________
ADALTIOITRN_______________________
THNOIGILHDW______________________
STRBDIOIUSINT_____________________
TWLDRWHASIA______________________
LCAAUTECL_________________________
ARBATCELIH________________________
IETRNERETM_______________________
EFPREIALRENT______________________
CUESSERITI________________________

Rearrange the letters in the word list to find the words needed to complete the word search **HINT: <u>All words can be found on the front page.</u>** Circle the unscrambled words in the WRIGHT Word Search. Send us your completed puzzle (via mail, fax or email) and be entered into a drawing for a $25.00 Gift Card!

B	A	T	P	L	E	C	I	Y	M	E	S	D	D	Y	N	I	T	F	C
M	E	M	E	R	I	T	E	R	U	E	S	S	N	I	R	U	C	E	S
S	N	O	I	T	A	L	U	T	C	L	C	I	T	N	E	O	M	A	M
D	Y	S	V	S	I	A	I	U	A	R	D	T	E	A	T	P	G	S	P
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A	N	S	I	D	A	R	I	T	F	C	T	C	S	D	T	N	A	S	S
R	A	O	A	B	D	T	Y	R	O	I	T	S	L	A	G	L	E	R	A
M	K	R	I	H	I	C	E	M	M	T	D	O	I	A	T	A	P	S	D
I	T	N	T	T	R	H	P	G	R	I	H	U	R	D	C	I	T	N	P
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A	F	S	E	S	B	I	I	I	P	I	S	R	I	E	A	E	I	N	F
C	D	S	R	O	T	I	W	R	T	C	I	A	M	E	N	R	T	N	S
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BONUS: For an extra chance to win an ADDITIONAL $25 Gift Card count how many times the word WRIGHT is found is this ENTIRE publication and enter it HERE> ____. Good Luck!

CONGRATULATIONS to **Linda Dewitt** for winning the March 2022 WRIGHT WORD SEARCH,
and to **Edith Springate** for getting the WRIGHT's count right (15)!