



# Retirement Taxes

You may be thinking that you don't have to pay taxes once you reach retirement.

Unfortunately, that's not the case.

However, you can design a retirement plan to minimize your taxes once you understand these taxes. These taxes can impact your income, investments, and assets. Here are the taxes you should know about if you want to reduce your tax bill in retirement.

## **Social Security tax**

In retirement, you'll may have to pay taxes on your benefit amount if your total taxable income goes beyond a certain limit. Typically, only people with a considerable income from various sources, such as dividend payments, distributions from tax-deferred retirement accounts, or wages, may have to face this.

When you file individually, if the sum of your income's tax-exempt interest, and half of your Social Security benefits, is between \$25,000 and \$34,000, up to 50% of your benefits could be subject to income tax. If you file over \$34,000, that percentage may go up to 85%.

When you file jointly with a spouse, you may have to pay income tax on your combined income. In a joint return, if you fall within \$32,000 to \$44,000, up to 50% of your benefits may be liable for income tax. Exceeding \$44,000 will take the taxes to 85%, just like an individual return.

## **Required Minimum Distribution (RMD) tax**

If you have contributed to an IRA or employer-sponsored plan, like the 401(k), the IRS requires you to take distributions known as RMDs beginning at age 72.

You can calculate your RMD using the IRS Life Expectancy Table. However, if your spouse is the beneficiary of your retirement account and they are 10 years younger than you, use the IRS Joint Life Expectancy Table to determine your RMD.

RMDs act as income and are subject to federal, and state taxation if applicable. Depending on your RMD and other income, the distributions could push you into a higher tax bracket,

resulting in more retirement taxes. So, keep an eye on the taxable income if you want to minimize your taxes.

Bear in mind that if you have a Roth, you don't have to worry about taking RMDs from this account.

### **Pension income tax**

If you have a pension, you will be taxed on any distribution from your pension payments and tax-deferred annuities or retirement accounts. When you are paid from your pension, you have to pay taxes at your federal income tax bracket rate.

If you take a lump-sum distribution, you'll have to pay taxes on the total amount the year you take the distribution.

### **IRA and 401(K) distribution tax**

If you want to use your traditional IRA, 401(k), 403(b), or 457 for income, you'll pay taxes on any distribution amount. The IRS calculates information is available on their website.

You should also know about the taxable account tax and estate tax.

### **The Takeaway**

Navigating taxes once you reach retirement can be frustrating and you may make mistakes if you're not careful.

Fortunately, a retirement planning specialist can help you understand the system and can help you to design a plan to minimize your taxes and stress, protecting the funds you'll need.

If you are looking for a tax-free retirement income for life, consult retirement plan specialists in Orange County, check out [Tax Advantaged Retirement Specialists](#) or call 442-400-3522.