# Tax Preparation vs. Tax Strategies: Keeping More of What You've Earned

With tax day just around the corner, you may be pushing to put the final touches on your returns. And if you are like most Americans, you didn't start thinking about your taxes much before this filing deadline. This can be a mistake—one that can cost you, particularly in retirement. There are proactive steps that you can take throughout the year to not only stay on top of your taxes, but *also work to reduce them.*

In retirement, it may seem logical to think that you would be in a lower tax bracket than in your working years; however, if you have a large majority of your savings in tax-deferred savings vehicles, such as traditional IRAs and 401(k)s, you may be surprised at how much the tax liabilities can dig into your retirement. Additionally, when and how you begin to draw from your savings can have compound taxation effects on your Social Security benefits as well as Medicare premiums. Developing a tax-advantaged retirement income plan is essential to help maximize how much of your money you are able to enjoy. Here are a few tips to get you started:

- **Roth Conversions**: If you are concerned about future tax rates being higher than they are today you may consider converting some or all of your traditional retirement assets into Roth accounts. Under current law, this allows for you to pay income tax today on any amount converted so that future growth and distributions will be tax-free. Legislation has been proposed in recent years, including in the 2016 Budget Proposal, to eliminate this conversion option; however, there are currently no income limitations or caps on how much you can convert to Roth. This strategy also does not require an all or nothing approach. You can be strategic by reviewing your taxable income for the year and convert just enough to stay within your current tax bracket.

- **IRA Contributions:** Adding to your retirement accounts can provide both short and long-term tax savings. If you have not yet made a contribution to an IRA for last year, you still have up until April 18 to do so. In 2015 and 2016, the contribution limit is $5,500 ($6,500 if you are age 50 or older). You may also contribute this amount on behalf of a spouse, even if they were not employed for the year, as long as you file a joint return with at least as much taxable income as your contributions. Contributions are capped at age 70.5 for traditional IRAs, but there is currently no age limit to contributing to a Roth IRA.

- **Calculate Required Minimum Distributions (RMDs):** Retirement accounts provide many benefits, including tax-advantages to help compound growth for retirement. However, there comes a point in which the government requires that you begin withdrawing from these accounts so that they can collect the taxes due. For traditional qualified accounts, this usually begins at age 70.5 and continues until the account has been depleted, either during your lifetime or for your heirs. The percentage that you are required to take (required minimum distributions) will also increase each year. For many retirees, the amount of the RMDs actually grows to surpass their income needs over the span of their retirement. So they take money out of tax-advantaged retirement accounts, pay the taxes, and are left with dollars that may just sit in the bank earning minimal *and taxable* yield each year. By creating a comprehensive income plan, you can begin to anticipate the impact of these future mandatory withdrawals to be more strategic and tax-advantaged in how you position your investments.

To learn more about how to create a tax-advantaged retirement income plan for your unique needs, contact us at (256) 715-0094 for a consultation today.

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