Pomegranate Financial

Refresh & Simplify
Your Financial Life

Newsletter

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The Low Tax Retirement | How you can control your Retirement Taxes

Plan your retirement well enough and you could be living a low tax retirement & in some cases tax free!

This month I'm planning out the low tax retirement for you while illustrating the sacrifices required to achieve this.

To Start - you will need to understand how social security is taxed.

A portion of your social security might be taxable based on your total yearly income. So combine all your income (ex. dividends, interest, wages, capital gains, business & rental profit, etc.) AND then add 50% of your social security benefit.

If that amount is (for married filing joint): This is an estimate - exact amounts based on Worksheet 1, page 7

- Less than $32,000 = None of your social security is taxed!
- >$32,000 but < $44,000 = 50% of your social security is taxed.
- >$44,000 = 85% of your social security is taxed.

If you live on only social security then you could live on $64,000 without a dollar being taxed! A 0% tax rate!

That's $5,333/month. If your mortgage is paid off then that's a comfortable retirement for the average American (assuming you have a large savings as well).

Now, what happens if you take out $42,588 from your Traditional IRA in addition to your Social Security?

This maxes you out at the '50% social security taxable' amount.

- Total Income: $106,588 or $8,882/month
- Adjusted Income: $74,588
- Standard Deduction: $27,800 (2021)
- Taxable Income: $46,788
- Federal Taxes: $5,215

That is a Federal Tax Rate of 4.89%!

Based on 2021 Rates

Tax rate	Taxable income bracket	Taxes owed
10%	$0 to $19,900.	10% of taxable income.
12%	$19,001 to $81,050.	$1,990 plus 12% of the amount over $19,000.
22%	$81,051 to $172,750.	$9,436 plus 22% of the amount over $81,050.

Long-term Gains, Roth IRAs, HSAs, and Buckets

Any withdrawal from your Roth IRA has no effect on your tax return. If most of your savings is in your Roth IRA, then you can live on much more without incurring any additional tax.

The same applies for your Health Savings Account (HSAs) as long as the funds are used for qualified medical expenses.

- Long-Term Capital Gains are taxed differently and often favorably.

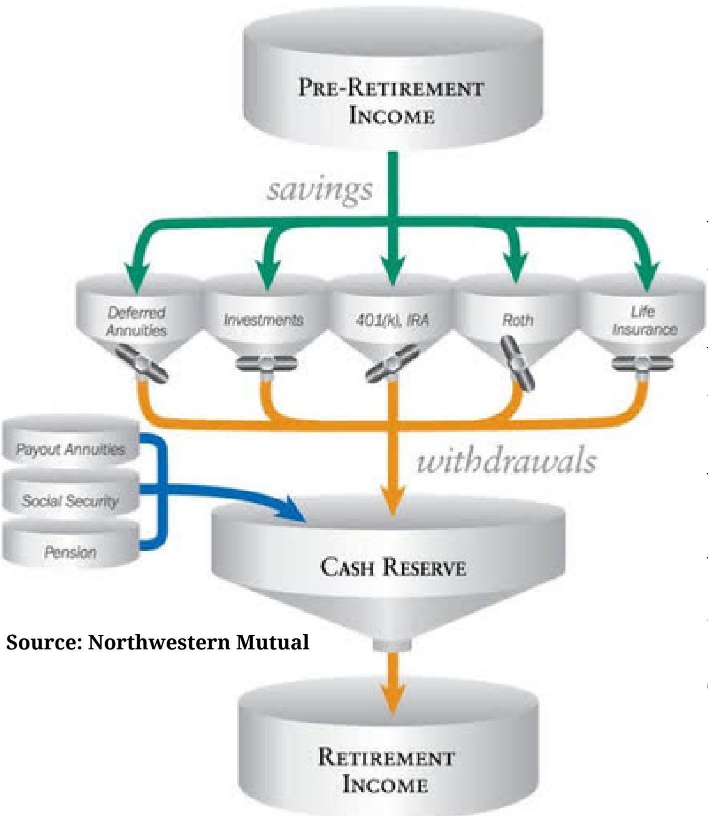
Tax-filing status	0% tax rate	15% tax rate	20% tax rate
Married, filing jointly	$0 to $80,800	$80,800 to $501,600	$501,600

Maximizing the Long-Term Capital gain rate

$64,000+$60,973 = $124,973 or $10,414/Month

You have a taxable investment account and you withdraw long-term gains of $60,973. This withdrawal makes more of your social security taxable, but all of the gains are taxed at 0%. Only social security income is taxed.

Total Federal Tax: $1,983 (1.6% rate); Taxes vary by state.
UT: $3,834 (3.1% rate)



Source: Northwestern Mutual

Too Many Retirees Pay Too Much In Taxes

By simply saving in multiple types of accounts, future retirees can better control their future retirement taxes.

You can pull more from savings during down years or high tax years.

You can harvest long-term capital gains without additional tax.

You can withdraw from Roth IRAs tax free.

You can pull from Traditional IRAs/401(k)'s without incurring much tax, particularly through lower tax years.

The Key is having a variety of buckets AND having less debt.

What's the solution? How do I know what to contribute to and when?

It requires planning - year in and year out based on your situation. There's no one size fits all plan.

Short-term planning saves money, long-term planning creates wealth. The complexity of accounts, our tax system, and diverse investment opportunities have created the need to plan in order to be able to keep more money in your pocket.

Let me show you by reviewing the different saving accounts:

Roth IRA:

- Tax free growth and withdrawals! (after age 59.5, except for Roth conversions)
- But by contributing to a Roth account - you are sacrificing a current discount on taxes based on your current tax bracket!

Traditional IRA:

- Tax free discount now based on current tax bracket.
- But you will have RMD (required minimum distributions) starting at age 72 - forcing you to pay taxes!

Taxable Investment Account:

- Long-term capital gains in the future taxed at possibly a lower tax bracket!
- Tax loss harvesting!
- But it could create taxable dividends today.

Pension/Annuity:

- Provides stability and confidence in receiving money month in and month out.
- But locks up your ability to control your tax bracket

Social Security:

- Provides stability and confidence in receiving money month in and month out.
- A portion can be tax free or tax discounted
- You were already taxed on this money! Live on too much income and you get Double Taxation!

Rental Property:

- Provides great business expense write-offs to lower taxes.
- Provides stability and confidence in receiving money month in and month out.
- Once depreciated - can also lock up your ability to control your tax bracket.

Mortgage & Auto Debt:

- Paying off debt will help keep retirement expenses low thereby increasing

your control over taxes in retirement.

- This comes at the expense of saving & investing less which could earn you a potentially higher return when compared with your mortgage/auto debt interest rate.

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