PERSONAL FINANCE

LEARN ABOUT TAXES AND RETIREMENT

6 Tips for tax-savvy retirement preparation

One day you will know more about how taxes can affect your retirement account. One Day is Today!®

While it's likely you've experienced the effect taxes can have on your income, are you aware of the impact they can have on your retirement accounts? While minimizing your tax bill should not be the only consideration you make when determining your retirement preparation strategy, keeping an eye on how taxes can affect your retirement income may help you reduce the overall impact in the end.

1. Consider both tax-deferred and taxable retirement accounts

It is important to participate in a tax-deferred account, such as your employer-sponsored retirement plan, but for most people it is also a good idea to invest in a taxable account. This can give you options as to where you will withdraw income from when you retire.

Both accounts have their pros and cons. Investing in a tax-deferred account means you contribute to your account with pre-tax money and earnings on your contributions compound tax-deferred until withdrawal. With a taxable account, your contributions are post-tax and earnings that accumulate are typically also taxed, usually at capital gains and dividend rates, and the amount you withdraw may not be taxed at the time of distribution.

2. Focus on your expected net retirement income

When you are estimating how much you expect to have in retirement income, focus on the net amount. Keep in mind that assets in a tax-deferred account will be subject to ordinary income tax upon withdrawal, and any Social Security benefits you receive may also be taxed. Therefore, you will need to accumulate more than you will need in net retirement income to offset the taxes that will be taken out when you begin taking distributions. Also, keep in mind that some people are actually in a lower tax bracket after they retire, than they are while working.

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3. Look into the Saver's Tax Credit

The Saver's Tax Credit is a non-refundable tax credit available to lower income individuals and households that contribute to employer-sponsored retirement plans. The amount of the credit depends on the adjusted gross income of the individual or household and the size of the contribution. For more information on this credit (and to see if you qualify), visit *IRS.gov* and search for "Saver's Tax Credit".

4. Be cautious about taking early withdrawals

If you withdraw money from a qualified retirement plan before reaching age 59½, you may be subject to an additional tax of 10 percent. This 10 percent tax is in addition to ordinary income taxes on the amount you withdrawal.

5. When it comes time for Required Minimum Distributions (RMDs), don't be late!

RMDs are withdrawals that plan participants must begin taking from their retirement accounts when they reach age 70½ and each subsequent year thereafter. Failing to withdraw your RMD by the applicable deadline may result in you owing the IRS an excise tax of 50 percent of the amount not withdrawn. So, make sure you make that withdrawal on time.

6. Always consult your tax advisor

Because everyone's specific situation is different, you should speak with a qualified tax professional about how taxes may impact you. While we have covered some solid general principles, there is no substitute for professional advice tailored to your situation.

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Investing involves risk including potential loss of principal.

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