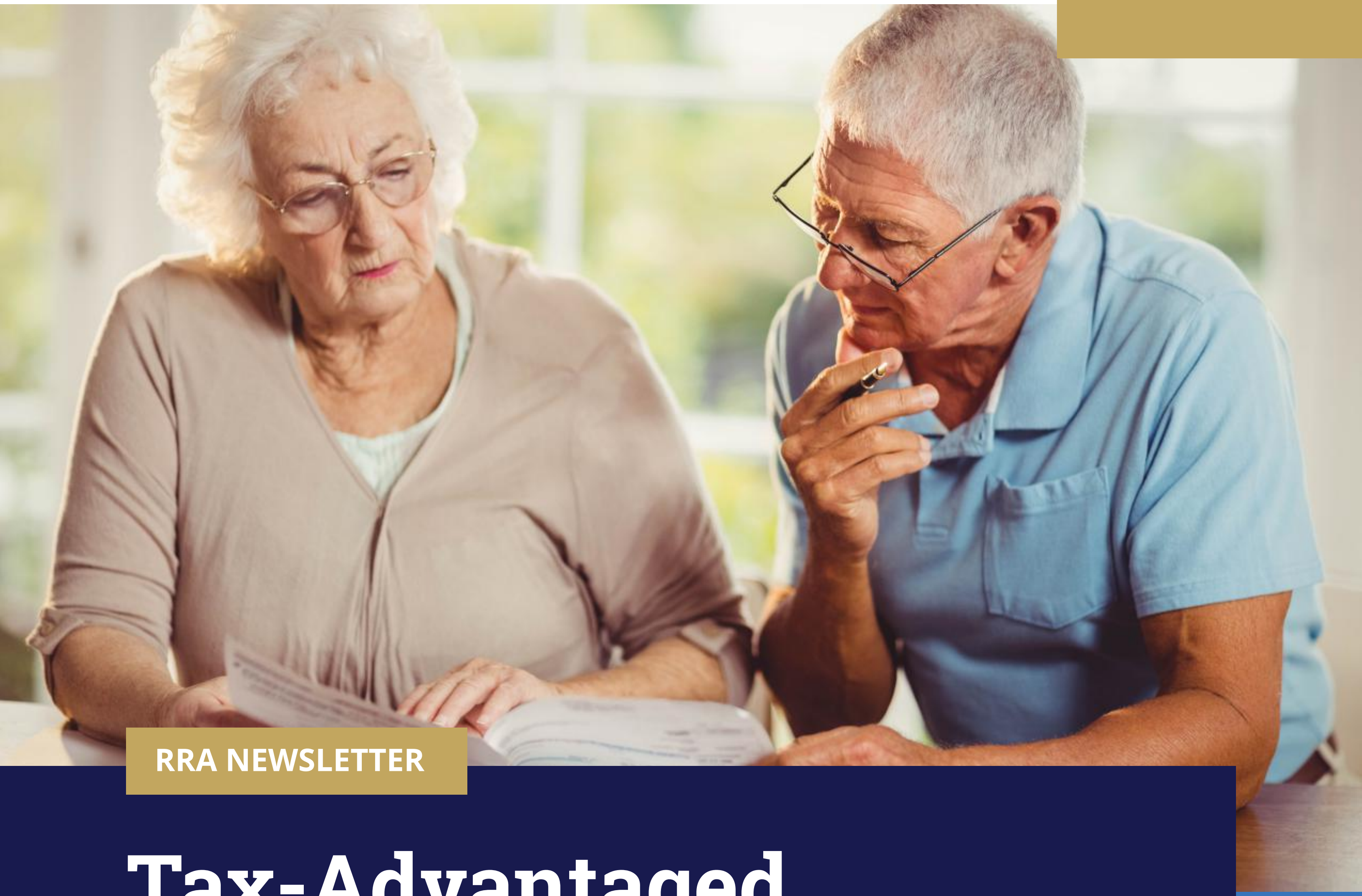
Your #1 Source for Retirement Education

DECEMBER 2022



RRA NEWSLETTER

Tax-Advantaged Accounts & Your Retirement

Tax-advantaged does not mean tax-free, but strategic use of the various tax-advantaged retirement accounts may help your retirement planning.

Tax-Advantaged Defined

Typically, investments or financial accounts offering some tax benefits, tax-advantaged are oftentimes tax-exempt or tax-deferred. Examples of tax-advantaged investments are municipal bonds and annuities; examples of tax-advantaged plans are IRAs or 401(k)s.

Tax-advantaged items and products are used to protect income streams and save for retirement with tax-exempt and tax-deferred benefits. Oftentimes it is a combination of the two that people find themselves using for retirement.

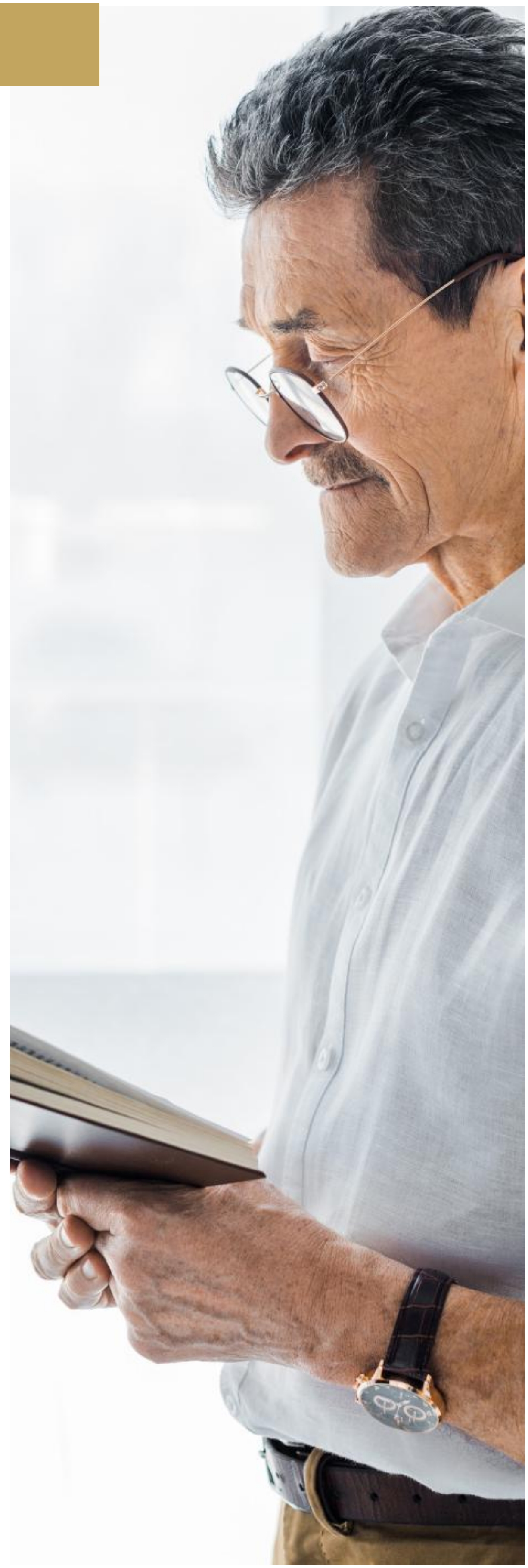
Tax-Deferred Accounts

These accounts allow you to receive tax deductions immediately on your contribution. However, future withdrawals are taxed at your ordinary-income rate. For American pre-retirees and retirees, the two most popular tax-deferred retirement accounts are traditional IRAs and 401(k) plans.

Tax-Exempt Accounts

Tax-exempt accounts provide tax benefits on your future withdrawals since contributions are made with after-tax dollars. The tax advantage is not seen immediately, but down the road. These types of accounts are sought after because investment returns grow tax-free. Roth IRAs and Roth 401(k)s are the most popular for American retirees to invest in for retirement.

Summary note: Tax-deferred accounts are where taxes are paid in the future. Tax-exempt accounts pay now and are tax-free later. Major tax advantages can be realized if tax-deferred and tax-exempt accounts are shifted properly.



Tax-Advantaged Investments

To minimize tax burden, these investments allow investors to shelter portions of their income from taxation. Take municipal bonds, for example. Interest is received on the bonds for the duration of the bond's life. To incentivize investors, the income earned off the interest is not taxed at the federal level. Moreover, if the investor resides in the state where the bond was issued, the interest income is exempt from state and local taxes, too.

Tax-Advantaged Accounts

Tax-advantaged accounts allow for tax-deferred, and in some cases, tax-free investing and retirement saving. IRAs and 401(k) plans are the best examples of tax-deferred accounts, where earnings and savings are not taxed yearly. The taxes come due once the individual contributing to the account retires. Should you withdraw before 59 ½ years old you will have to have taxes and penalties on whatever amount is taken out.

Under the SECURE Act, retirees now have until 72 before required minimum distributions must begin. Before it was age 70 ½.

2023 Contribution Limits

2023 is upon us and an important factor to tax-advantaged accounts and plans is the contribution limits the IRS sets. This year the contribution limits were increased more than they have been in the past due to historically high inflation and cost-of-living.

401(k) Plans

In 2023, for 401(k) plans the contribution limit has been increased to $22,500. This contribution limit applies to most 457 plans and 403(b)s.
For those over 50, the catch up contribution limit is increasing to $7500. So those over 50 in 2023 can contribute up to $30,000.

Defined Contribution Plans and SEPs

For these plans, the contribution limit is increasing by $5000 from 2022's limit: $66,000.

SIMPLE Plans

Increasing just over a $1000, these plans can contribute $15,500. The catch-up for those over 50 has been increased to $3500.

IRAs

While the over 50 catch-up limit is not being changed for IRAs, the annual contribution limit is being raised to $6500.

Retirement Accounts and Tax-Advantaged

With contributions to tax-advantaged accounts being regular basis, you can invest these income funds to grow your retirement savings. You either pay taxes on your contributions when you withdraw from the accounts, or you use after-tax dollars to make the contributions. And if you wait until retirement and the age limits, the gains are not taxed—but different accounts have different rules and regulations.

Here is an overview of retirement accounts and tax benefits:

Accounts:

- 401(k) plans: Usually offered through an employer, the employer-sponsored plan will have set terms, but as a benefit employers will typically match a portion of your contribution.
- Individual Retirement Accounts (IRAs): Set up by the individual, more options are available since you can pick the provider.

Tax benefits:

- Traditional accounts allow a deduction from your income each paycheck to be contributed to the plan. You pay the taxes once you withdraw in retirement. Since the money has yet to be taxed in these accounts, the IRS has strict rules for how you can use the funds.
- Roth accounts are a different story. They allow you to contribute after-tax money so once you withdraw the funds in retirement the distributions are tax-free. And given that you have already paid taxes, the rules the IRS has on Roth accounts are less strict.

Governing Key Features:

- Eligibility: Certain accounts are only available to certain people
- Income limits: Placed on accounts so only certain income levels can access/use
- Contribution limits: Restrictions on how much can be contributed yearly
- Withdrawal rules: Includes age restrictions for withdrawing where you either pay penalties/taxes before or don't after a certain age
- Disbursement rules: Specific accounts have required minimum distributions that you have to take beginning at a certain age

The following overview of retirement accounts is general. Please note these accounts have extensive regulations and consulting a professional advisor would be best to determine which ones may or may not work for you.

The Tax-Advantaged Retirement Accounts

1

Traditional IRA

A tax-deferred retirement plan where the government will not tax your contributions. The year you make the contributions, you can deduct your contributions from your taxable income. However, once you retire, the distributions are taxed as regular income. These plans are great for those who may be in a lower tax bracket in retirement and those who want flexibility. There are annual limitations, and you are required to take RMDs.

2

Roth IRA

Unlike traditional IRAs, your contributions to this IRA are made with after-tax dollars, but your withdrawals are tax-free in retirement. These are great for those who may be in a higher bracket in retirement or who may be younger savers. If your income is too high you cannot contribute to a Roth IRA, and there are annual limits on your contributions.

3

SEP IRA

Standing for Simplified Employee Pension, a SEP IRA is taxed much like a traditional IRA but offers a much higher contribution limit. However, you must be a business owner to set this up for yourself and your employees.

4

Spousal IRA

To open an IRA, you need to earn income, but this IRA is a loophole. If you or your spouse earn little or no income the earning spouse can open and contribute to a Spousal IRA on their behalf. These, however, follow many of the same stipulations of a traditional IRA.

5

SIMPLE IRA

Small businesses here is another option with major benefits to employees and the employer. Meant for small business owners or self-employed persons, the money is yours should you leave the company and contributions must be met by the employer if you are an employee. There are penalties for early withdrawals and RMDs are required.

6

Self-Directed IRA

Offering you a more diversified portfolio (real estate, bonds, stocks etc.), this IRA is unique with how much control you have over your investments. You must reminder that this comes with more risk than the other options.

7

Non-Deductible IRA

If for any reason you don't qualify for a traditional or Roth IRA, this IRA is a simple option for you. Although it doesn't have as many perks, you can invest, and the plan will go tax-tree. This may also be an option for those who have maxed out an employer-sponsored plan.

8

Traditional 401(k)

The traditional 401(k) plan is a tax-advantaged plan offered through employers. Similar to a traditional IRA, contributions are tax-deferred. Good news is that employers with these plans will match up to a certain percent of contribution. You just don't have much control over the provider and have limited investment options. This type of account does have age restrictions for withdrawing and has RMDs.

9

Roth 401(k)

You pay taxes as you make your contributions into this account much like a Roth IRA. Withdrawing funds is tax-free except the contributions your employer made.

10

Solo 401(k)

Self-employed? Then this plan will let you have the benefits of a 401(k) but with other benefits. You can contribute to your plan as the employer and the employee, allowing for good contributions for your retirement savings. And under some plans, your spouse could be factored in. The only downside is that these accounts are only for business owners and their spouses.

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SIMPLE 401(k)

If the traditional 401(k) and a SIMPLE IRA were to combined, a SIMPLE 401(k) would be the hybrid. Your contributions are tax-deferred and your employer makes contributions, too. However, if you are the small business owner your employees' contribution limit is lower than the traditional 401(k).

12

Safe Harbor 401(k)

With immediate ownership of the funds contributed, these plans are common among small business owners because they are less costly to setup.

13

Profit Sharing Plan

Self-titled, this plan means the company you work for shares profits with you. You do not have control as the employee and the owner/company board decides how much they share, and you do not make any contributions yourself. Statistically, profit sharing has been shown to increase productivity and workplace satisfaction. These plans are sometimes offered with other retirement benefits.

14

403(b)

As the retirement plan for non-profit organizations, the benefits and rules are almost identical to traditional 401(k)s.

Upcoming November Webinars

12/5 – Tax-Free Income for Life: How to Eliminate Risk in Retirement

12/7 – Getting Safely Through Retirement-A New Paradigm in Retirement Planning

12/12 – Shopping for Long-Term Care Insurance and Your Nursing Home

12/13 – The Truth About Reverse Mortgages: Everything You Need to Know

12/14 – Evolving Retirement Law: The Challenges, The Changes, and Your Choices

12/14 – Getting Safely Through Retirement-A New Paradigm in Retirement Planning

12/15 – Roth IRAs: A Great Option for Most Retirees

12/19 – Take Control of Your Retirement with a Self-Directed Plan

12/21 – Getting Safely Through Retirement-A New Paradigm in Retirement Planning

12/28 – Women, Money, and Power: Take Control of Your Financial Future

12/28 – Getting Safely Through Retirement-A New Paradigm in Retirement Planning

12/30 – 2023 and Beyond: Recent Changes to Social Security and Medicare

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2023 & Beyond

Recent Changes to Social Security and Medicare

2023 brings A LOT of changes for retirement planning. Contribution limits are changing and many changes that were made to Social Security and Medicare will impact more than just 2023.

Learn about the changes 2023 has in store of Social Security and Medicare now, tomorrow, and even years down the road. With these programs being staples of retirement planning for many CPAs, it is important to understand how the changes will impact the future of these programs and your retirement.

In our "2023 and Beyond: Recent Changes to Social Security and Medicare" webinar you will learn:

- How the 2023 changes will impact your retirement and retirement planning years to come
- The changes to Social Security and Medicare
- The impact the Inflation Reduction Act has on Medicare
- The financial stability of both programs

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