

TAX-SMART RETIREMENT



A GUIDE FOR THE AGE 50-75 CROWD
TO LOWER AND ERASE TAXES

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Introduction

Whether you're planning to retire within the next decade or have already embarked on your well-deserved retirement journey, this book is an essential read. Understanding the intricacies of today's financial landscape can seem overwhelming, particularly given the U.S. government's deficit spending and a national debt surpassing \$30 trillion. This financial climate, coupled with additional borrowing from Social Security and Medicare liabilities, could result in increased tax liabilities for pensions, 401(k)s, 403(b)s, and other retirement accounts. With experts cautioning about the possibility of tax hikes due to continued deficit spending, staying proactive and well-informed is crucial.

Even if tax rates remain stable, it's important to remember that a substantial portion of the assets in traditional retirement plans and pensions have not yet been subjected to taxes. Consequently, retirees and their heirs who are

unprepared may unexpectedly face thousands of dollars or more in extra taxes when mandatory distributions from these accounts are required.

For individuals between the ages of 50 and 75, it's never too late to employ tax strategies, such as Roth conversions and tax reduction techniques, to enhance their retirement savings. As people are living longer and experiencing lengthier retirements, strategically managing taxes becomes increasingly important for financial stability. Converting a Traditional IRA to a Roth IRA allows for tax-free growth and withdrawals, reducing the overall tax burden during retirement. Additionally, employing tax reduction methods, such as income shifting and charitable giving, can further optimize one's financial situation. By actively addressing tax concerns in this age range, individuals can significantly improve their long-term financial security and retirement comfort.

This book offers an empowering and optimistic perspective, providing you with valuable insights and strategies to navigate the financial challenges ahead confidently. By taking control of your financial future, you can protect your

hard-earned retirement savings and ensure a more secure and enjoyable retirement for you and your loved ones.

Our goal is to educate and empower individuals, helping them design a plan that protects their wealth from excessive taxation. We're committed to delivering top-notch financial strategies, advice, and services, enabling our clients to achieve financial independence and safeguard their hard-earned assets from over-taxation.

Many people feel uncertain about where to start and may unwittingly rely on large financial institutions that prioritize their profits over their clients' best interests. Our passion lies in equipping individuals with the tools they need to attain financial independence and enjoy their retirement on their own terms.

After earning my degree from the University of Kentucky and moving to Indianapolis, I joined a bank but soon realized their approach to client service conflicted with my values. I set out on a mission to find a better way to support clients, offering personalized advice and services focused on their unique needs rather than the

high-profit products pushed by big banks, insurance companies, and investment firms.

Over the past two decades, our team of dedicated professionals has cultivated a loyal client base by emphasizing personalized service and accountability. As a proud American-owned and operated company based in Indianapolis, Indiana, we excel in providing outstanding support to our clients, always keeping their retirement plans at the forefront of our priorities. We are thrilled to help you achieve the American Dream in your retirement!

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Chapter One

Mastering the Triple Tax Advantage through Strategic 401(k) Contributions

In this chapter, we'll delve into the remarkable benefits of contributing to a 401(k) and how you can optimize your strategy to maximize your financial gains. With precision and careful planning, you can achieve the elusive triple tax advantage using a Traditional 401(k). This approach involves claiming a tax deduction upon making 401(k) contributions, allowing the investments to grow tax-free, and later withdrawing Required Minimum Distributions (RMDs) tax-free by offsetting them with your standard deduction. Keep in mind that this strategy requires meticulous calculations and attention to other taxable income sources to be successful.

Let's begin by understanding the fundamentals of a 401(k). This employer-sponsored retirement savings plan enables you to save and invest a portion of your pre-tax income,

allowing your investments to grow over time and providing a secure nest egg for your retirement years.

Contributing to a 401(k) offers the significant advantage of lowering your taxable income, which is especially valuable for those in higher tax brackets. By making pre-tax contributions, you reduce your taxable income for the year, and your investments accumulate earnings tax-free.

When you retire and start taking RMDs from your 401(k), these withdrawals are considered taxable income. However, managing your RMDs in tandem with the standard deduction can effectively lower your overall tax liability. The standard deduction, set by the IRS, reduces taxpayers' taxable income, lessening their tax burden. By timing your RMDs strategically, you can offset the taxable income generated by these withdrawals, resulting in lower or potentially tax-free RMDs.

To implement this strategy successfully, follow these steps:

1. Analyze your current and projected taxable income to determine the most effective approach to 401(k) contributions and RMDs. This understanding will guide your contribution amounts and withdrawal timings to optimize tax benefits.
2. Monitor your annual RMDs to ensure you're taking the appropriate amounts based on your age and account balance. It's essential to stay informed and comply with the IRS's specific RMD rules.
3. Keep abreast of changes to the standard deduction, as the IRS may adjust this amount. Staying informed enables you to adapt your strategy to maintain the tax advantages provided by your 401(k).
4. Consult one of our financial professionals to help optimize your strategy and maximize your 401(k)'s triple tax benefit. One of our financial advisors can offer personalized guidance and help navigate the complexities of tax laws and regulations.

However, avoid over-contributing to your 401(k). If tax rates rise in the future or you find yourself in a higher tax bracket, withdrawals may be taxed at higher rates, diminishing some benefits. Balancing your 401(k) contributions with other retirement savings options, such as a Roth 401(k), is crucial for optimizing your financial strategy.

A Roth 401(k) is an alternative retirement savings plan with after-tax contributions. Although you won't receive an immediate tax deduction, your retirement withdrawals will be tax-free. This option can be valuable for those expecting higher tax brackets during retirement. Careful consideration of traditional and Roth 401(k) contributions will help maximize retirement savings and may even enable tax-free Traditional 401(k) withdrawals by offsetting them with your standard deduction.

Chapter Two

Unleashing the Power of the Roth 401(k)

In your journey to financial peace, it's crucial to utilize the right tools and strategies to maximize your wealth-building potential. One such tool that has the power to transform your financial future is the Roth 401(k). In this chapter, we'll delve into the many benefits of contributing to a Roth 401(k) and how it can help you build a solid foundation for a prosperous retirement. A quick note when we reference the Roth 401(k), we are also referring to any Roth employer-sponsored defined contribution plan. This includes Roth 403(b), Roth(457), Roth Thrift Savings Plan, etc.

1. Tax-free growth and withdrawals

The most significant advantage of the Roth 401(k) is its unique tax treatment. Unlike traditional 401(k) accounts, where your contributions are made with pre-tax dollars, Roth 401(k) contributions are made with after-tax dollars. While this means you don't receive a tax deduction for your contributions, it also

means that your earnings grow tax-free. And when it's time to withdraw your funds in retirement, those withdrawals will be tax-free as well. This can be incredibly beneficial when you consider the uncertainty of future tax rates and the power of compound interest over time.

2. No Required Minimum Distributions (RMDs)

Another benefit of the Roth 401(k) is that there are no required minimum distributions (RMDs) during your lifetime. With traditional 401(k) accounts, once you reach the age of 73, you are required to take minimum distributions from your account each year, which can be a burden if you don't need the income. The Roth 401(k) eliminates this requirement, giving you greater flexibility in managing your retirement income and allowing your investments to continue growing tax-free for as long as you live.

3. Diversify your tax risk

Contributing to a Roth 401(k) is a smart way to diversify your tax risk. By having both pre-tax and post-tax retirement accounts, you can better manage your tax liability in retirement. This strategy allows you to withdraw from your traditional 401(k) in years when your taxable

income is lower and from your Roth 401(k) in years when your taxable income is higher, helping you minimize your overall tax burden. This tax diversification can be a game-changer in terms of maintaining your desired lifestyle during retirement.

4. More control over your retirement income

The Roth 401(k) offers you more control over your retirement income. Since you've already paid taxes on your contributions, you can decide when to withdraw funds without worrying about the tax consequences. This can be especially helpful in managing your income during retirement, ensuring that you stay within your desired tax bracket and have the flexibility to meet unexpected expenses without causing a significant tax impact.

5. Potentially larger balance in retirement

While the Roth 401(k) may not offer the immediate tax deduction of a traditional 401(k), it can result in a larger balance in retirement. Because your earnings grow tax-free, you'll have more money available to you in retirement than you would with a traditional 401(k)

account. This means that even though your contributions are made with after-tax dollars, your overall wealth can be greater in the long run.

6. Estate planning benefits

Roth 401(k)s can also be advantageous for estate planning purposes. Since there are no RMDs, you can leave your Roth 401(k) to your heirs, who can then stretch out tax-free distributions over their lifetimes. This can be an effective way to pass on your wealth to future generations without burdening them with unnecessary taxes.

In conclusion, the Roth 401(k) is a powerful financial tool that can help you build wealth and achieve your retirement goals. By taking advantage of its unique tax benefits, flexibility, and growth potential, you can pave the way.

Case Study: Mike's Late Start with Roth 401(k)

Mike, a 60-year-old male, started contributing to a Roth 401(k) late in his career. Despite the late start, Mike benefits from tax diversification, as he can strategically withdraw funds from his

traditional 401(k) and Roth 401(k) to minimize taxes in retirement. By contributing to a Roth 401(k), Mike's investments grow tax-free, and his withdrawals are tax-free in retirement. Additionally, Mike avoids required minimum distributions (RMDs) and can leave a tax-free legacy to his heirs. Mike's case demonstrates that it's never too late to take advantage of a Roth 401(k)'s benefits.

QUICK TIP: Stay tuned to our social media and videos. New legislation could mean company contributions and matches could soon go to the Roth as well!

Chapter Three

Embracing the Advantages of Roth IRAs and Comparing Them with Roth 401(k)s

Introduction

When planning for retirement, it's essential to understand the various investment vehicles available to you. Two popular options are the Roth Individual Retirement Account (IRA) and the Roth 401(k). In this chapter, we'll explore the benefits of contributing to a Roth IRA, compare and contrast the differences between a Roth IRA and a Roth 401(k), discuss the rules for making contributions, and explain how to use a backdoor Roth if needed.

Benefits of Contributing to a Roth IRA

Tax-free growth and withdrawals: One of the most significant advantages of a Roth IRA is that it offers tax-free growth and tax-free

withdrawals during retirement. Unlike traditional IRAs and 401(k)s, which are funded with pre-tax dollars and taxed upon withdrawal, Roth IRA contributions are made with after-tax dollars, allowing you to enjoy tax-free income in retirement.

No Required Minimum Distributions (RMDs): Roth IRAs are not subject to RMDs, unlike traditional IRAs and 401(k)s. This means that you can let your investments continue to grow tax-free, without being forced to withdraw a specific amount each year once you reach age 73.

Flexibility in withdrawals: Roth IRAs offer more flexibility when it comes to accessing your money. While traditional IRAs and 401(k)s impose penalties for early withdrawals (before age 59 ½), Roth IRA contributions (not earnings) can be withdrawn penalty-free and tax-free at any time. This feature provides an additional layer of financial security in case of unexpected expenses.

Estate planning benefits: Roth IRAs can be an effective estate planning tool, as they can be passed on to heirs tax-free. Beneficiaries of a

Roth IRA are not required to pay income taxes on withdrawals, which can help preserve your wealth for future generations.

Comparing Roth IRAs and Roth 401(k)s

Contribution limits: Roth IRAs have lower annual contribution limits compared to Roth 401(k)s. For 2023, the maximum contribution limit for a Roth IRA is \$6,500 (\$7,500 if you're age 50 or older), while the limit for a Roth 401(k) is \$22,500 (\$30,000 if you're age 50 or older). Keep in mind these amounts can change every year, so keep up to date with our videos and social media for changes.

Employer matching: A significant advantage of a Roth 401(k) is the potential for employer-matching contributions. Many employers offer to match a portion of your Roth 401(k) contributions, essentially providing "free money" to boost your retirement savings. Roth IRAs, being individual accounts, do not have this feature.

Investment options: Roth 401(k) plans typically offer a limited selection of investment choices

determined by the plan provider and your employer. In contrast, Roth IRAs offer a broader range of investment options, allowing you to diversify your portfolio according to your preferences and risk tolerance.

Income restrictions: Roth IRAs have income restrictions for eligibility. In 2021, if your modified adjusted gross income (MAGI) exceeds \$153,000 (single filers) or \$228,000 (married filing jointly), you cannot contribute directly to a Roth IRA. Roth 401(k) contributions, on the other hand, are not subject to income limits.

Accessibility: Roth 401(k)s may have restrictions on withdrawals before retirement, as determined by the plan provider and your employer. Roth IRAs, however, allow for more accessible withdrawals of contributions without penalty, providing greater flexibility in case of emergencies or unforeseen expenses.

Rules for Making Contributions

Income eligibility: To contribute to a Roth IRA, you must have earned income and meet the

income restrictions mentioned earlier. There is a legal workaround at the time of this writing called the backdoor Roth. I have included a step-by-step guide using it in the bonus section.

Conclusion

As you plan for your retirement, it's crucial to understand the benefits of various investment vehicles and choose the ones that best align with your financial goals. A Roth IRA offers several advantages, including tax-free growth and withdrawals, no RMDs, flexibility in accessing funds, and estate planning benefits. While a 401(k) has higher contribution limits and the potential for employer matching, a Roth IRA can be a powerful addition to your retirement savings strategy. By understanding the rules for contributions and the backdoor Roth IRA strategy, you can make informed decisions that will set you on the path to financial security in your golden years.

Chapter Four

Uncovering the Benefits of Converting a Traditional IRA to a Roth IRA

When planning for your retirement, it's important to consider the best strategies for your individual situation. One option worth exploring is converting a Traditional IRA to a Roth IRA. This conversion can provide significant benefits, such as managing IRMMA increases, minimizing taxes on Social Security, ensuring financial security for a surviving spouse, and enjoying tax-free withdrawals during retirement.

By converting a Traditional IRA to a Roth IRA, you can strategically stay below the IRMMA (Income-Related Monthly Adjustment Amount) threshold. IRMMA determines your Medicare Part B and Part D premiums based on your income. Since Roth IRA distributions are not considered taxable income, they won't contribute to IRMMA increases.

Another advantage of Roth IRA conversions is that they can help you minimize taxes on your Social Security benefits. Traditional IRA distributions are counted as taxable income, which can cause more of your Social Security benefits to be taxed. However, Roth IRA distributions are tax-free, reducing the impact on your Social Security taxation.

When converting a Traditional IRA to a Roth IRA, one of the main benefits is the ability to enjoy tax-free withdrawals during retirement. Unlike Traditional IRAs, which are funded with pre-tax dollars and taxed upon withdrawal, Roth IRA contributions are made with after-tax dollars, allowing you to withdraw both contributions and earnings tax-free in retirement.

Lastly, Roth IRA conversions can provide significant benefits in the event of a spouse's passing. When one spouse dies, the surviving spouse often faces higher tax rates than a single filer. By converting a Traditional IRA to a Roth IRA, the surviving spouse can access tax-free income, helping to maintain financial stability during a challenging time.

In summary, converting a Traditional IRA to a Roth IRA is a smart move for many individuals. By carefully considering the advantages of managing IRMMA increases, minimizing taxes on Social Security, ensuring financial security for a surviving spouse, and enjoying tax-free withdrawals during retirement, you can make the best decision for your unique financial journey.

Strategies for Converting a Traditional IRA to a Roth IRA

1. **Timing your conversion:** One of the critical factors in a successful conversion is timing. If you anticipate being in a lower tax bracket in the near future, it might be wise to wait until then to convert. Conversely, if you expect to be in a higher tax bracket later, it may make sense to convert sooner. Consider consulting with a tax professional to help determine the best time for your conversion.
2. **Partial conversions:** Instead of converting your entire Traditional IRA in one go, consider making partial

conversions over several years. This strategy can help manage the tax impact and potentially keep you in a lower tax bracket.

3. Utilizing low-income years: If you have a year with lower income, it may be an opportune time to convert a portion of your Traditional IRA to a Roth IRA. The lower income can help offset the taxes due on the conversion, making it more financially manageable.
4. Tax diversification: By having both Traditional and Roth IRAs, you can diversify your tax exposure in retirement. This strategy allows you to draw from different accounts based on your tax situation in a given year, helping you minimize your overall tax burden.
5. Paying taxes from other sources: When you convert, it's generally best to pay the taxes due from a source other than the IRA itself. By doing so, you avoid penalties for early withdrawal and maximize the amount of money growing tax-free in the Roth IRA.

6. **Watching out for the pro-rata rule:** If you have both pre-tax and after-tax money in your Traditional IRA, the pro-rata rule comes into play during a conversion. This rule requires you to consider the ratio of pre-tax and after-tax money when determining the taxable amount of the conversion. Consulting with a tax professional can help you navigate this rule and minimize your tax liability.
7. **Recharacterization:** If you convert and later decide it wasn't the best decision, you have the option to "recharacterize" or undo the conversion. However, the Tax Cuts and Jobs Act of 2017 eliminated the ability to recharacterize conversions made after December 31, 2017. Therefore, it's essential to carefully consider your decision before converting.

By understanding the rules and employing these strategies, you can maximize the benefits of converting a Traditional IRA to a Roth IRA. With careful planning and expert guidance, you'll be well on your way to achieving financial freedom in retirement.

Case Study: Jennifer's Journey to Financial Freedom

Jennifer, a 65-year-old retiree, was seeking ways to optimize her retirement savings and minimize her tax burden in retirement. After consulting with our office, she decided to convert a portion of her Traditional IRA to a Roth IRA. This case study will explore the benefits Jennifer experienced as a result of this decision, including avoiding IRMMA increases, reducing taxes on her Social Security benefits, and providing tax-free income to her beneficiaries.

Jennifer had a Traditional IRA with a balance of \$745,000 and was receiving Social Security benefits. We recommended converting a portion of her Traditional IRA to a Roth IRA over several years to take advantage of some key benefits.

Avoiding IRMMA Increases

By strategically converting a portion of her Traditional IRA each year, Jennifer was able to keep her taxable income below the threshold for IRMMA increases. This allowed her to avoid higher Medicare Part B and Part D premiums,

saving her thousands of dollars in healthcare costs throughout retirement.

Reducing Taxes on Social Security Benefits

By converting to a Roth IRA, Jennifer was also able to reduce the taxes on her Social Security benefits. Since Roth IRA withdrawals are tax-free, they don't contribute to the calculation of taxable Social Security benefits. By carefully managing the amount of the Traditional IRA converted each year, Jennifer was able to minimize the taxes on her Social Security benefits, further increasing her retirement income.

Avoiding Income Tax for Beneficiaries

One of the primary motivations behind Jennifer's decision to convert was the desire to leave a tax-free legacy for her two children. By converting her Traditional IRA to a Roth IRA, Jennifer ensured that her beneficiaries would inherit a tax-free source of income. This allowed her children to enjoy the full value of their inheritance without worrying about tax implications or encountering tax issues due to their status as higher-income earners.

In conclusion, Jennifer's decision to convert a portion of her Traditional IRA to a Roth IRA provided her with numerous financial benefits. By avoiding IRMMA increases, reducing taxes on Social Security benefits, and providing tax-free income to her beneficiaries, Jennifer achieved greater financial freedom in her retirement years and left a tax-free legacy for her family.

Chapter Five

The Art of Optimizing Retirement Distributions: Minimizing Taxes and Maximizing Wealth

When it comes to planning for retirement, the focus tends to be on saving and investing. But once you reach retirement, how you withdraw these savings becomes just as important, if not more so. Withdrawing funds in the right order and from the right accounts can make a significant difference in how long your money lasts and how much you pay in taxes.

The Importance of Distribution Sequencing

Your retirement savings are not a homogeneous mass. Depending on the type of retirement account, each dollar can have different tax implications when withdrawn. Understanding this can have a profound impact on your overall financial health during retirement.

There are three types of tax treatment for retirement accounts: tax-deferred, tax-free, and taxable.

1. **Tax-Deferred Accounts (Traditional IRA, 401(k), 403(b), etc.):** Contributions are made pre-tax, but distributions are taxed as ordinary income.
2. **Tax-Free Accounts (Roth IRA, Roth 401(k)):** Contributions are made with after-tax dollars, but both contributions and earnings can be withdrawn tax-free in retirement.
3. **Taxable Accounts (brokerage accounts, savings accounts, etc.):** Contributions are made with after-tax dollars, and earnings are taxed yearly. Capital gains tax applies when assets are sold.

Moreover, you might also have Non-Qualified Plans or Dividend Producing Assets, which have their own tax treatment.

Strategically withdrawing from these accounts in a particular sequence can help you minimize taxes and maximize the longevity of your portfolio.

A General Approach to Retirement Distribution Order

In general, it's suggested to first draw down the taxable accounts. This allows your tax-advantaged accounts to continue growing tax-free or tax-deferred. However, this doesn't mean you should completely deplete one type of account before moving on to the next.

Balancing your withdrawals can help you manage your tax bracket, reducing the total amount of tax you'll pay over your retirement.

Here's a suggested order to consider:

1. **Minimum Required Distributions (RMDs):** Withdraw these first to avoid the significant penalty (50% of the amount that should have been withdrawn).
2. **Taxable Accounts:** Proceed to take funds from your taxable accounts, selling assets strategically to manage capital gains and rebalance your portfolio.
3. **Tax-Deferred Accounts:** Begin withdrawing from your traditional retirement plans like your 401(k) or traditional IRA.

4. **Tax-Free Accounts:** Finally, withdraw from Roth accounts which allow your money to grow tax-free the longest.
5. **Non-Qualified Plans and Dividend-Producing Assets:** Depending on the specifics of your non-qualified plans and the tax treatment of your dividend-producing assets, you may choose to incorporate these into your distribution strategy at various points.

The Importance of Diversification Across Account Types

Just as asset diversification is critical to managing investment risk, diversification across different types of tax treatments — a strategy known as tax diversification — is crucial to managing tax risk.

Having a mix of tax-deferred, tax-free, and taxable accounts, as well as non-qualified plans and dividend-producing assets, gives you flexibility. For instance, if tax rates rise in the future, you can minimize the impact by taking more from tax-free accounts like a Roth IRA. If tax rates fall, you can withdraw from tax-

deferred accounts like a traditional IRA or 401(k).

While the aforementioned strategies provide a general guideline, it's crucial to remember that retirement planning is not a one-size-fits-all process. Everyone's financial situation, income sources, and goals for retirement are unique, and these factors can significantly impact the optimal sequence of retirement distributions.

For example, if you have other income sources, such as pension or rental income from real estate, the timing and amount of these income streams can influence the best order of withdrawing from your retirement accounts. Similarly, Roth Conversion, a strategy where you transfer assets from a Traditional IRA to a Roth IRA, can be an effective tool for tax planning. By paying taxes now, you can take advantage of tax-free growth and withdrawals in the future.

These complexities underline the importance of personalized advice in retirement planning. Our team of experienced financial advisors is always available to provide insight and guidance tailored to your specific circumstances. Before you take any action, we highly recommend

scheduling a consultation with our office. With our expertise, we can help you navigate the intricate landscape of retirement distributions, ensuring you optimize your wealth and minimize your taxes. Remember, the key to successful retirement planning lies in understanding your unique financial landscape and making informed decisions.

Discover a brighter financial future with our complimentary strategy sessions, tailored specifically for individuals with over \$250,000 in investable assets. Our mission is to provide valuable insights into your current tax and financial situation and create a personalized plan to guide your journey ahead.

Introducing the CFG Retirement Road Map: a customized plan that evolves with your life and adapts to the ever-changing financial landscape. Our comprehensive approach considers your financial strategy for taxes, Social Security, investments, healthcare, retirement income, investment fees, risk management, and legacy planning. Get a second opinion or a brand-new plan, all at no cost to you.

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- Call **(317) 788-1562** to arrange an in-office strategy session.
- Email us
at **CFG@CFDinvestments.com**
- Visit our website and book a meeting:
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We hope our CFG Retirement Road Map inspires you to make informed decisions and take advantage of tailored strategies designed just for you. Our process ensures you minimize taxes, safeguard your income, maximize your Social Security benefits, adhere to financial

rules, manage investment risks, reduce fees, and leave a meaningful legacy.

Contact us today, and let us help you pave the path to peace and financial freedom. Together, we can secure a retirement that rewards your years of dedication and hard work. We look forward to speaking with you soon.

Chapter Six

Maximizing the Impact: Tax Advantages of Charitable Giving

In the realm of philanthropy, charitable giving not only benefits the causes you support but also offers valuable tax advantages.

Understanding these advantages empowers you to make a meaningful difference while optimizing your tax benefits. In this chapter, we will explore key strategies for tax-efficient charitable giving, including Qualified Charitable Distributions (QCDs), Donor Advised Funds (DAFs), annuities left to charity, and different types of charitable trusts.

Section 1: Qualified Charitable Distributions (QCDs)

1.1 An Overview of Qualified Charitable Distributions

Qualified Charitable Distributions (QCDs) have gained significance in recent years, especially

for retired individuals who may not be able to itemize deductions on their tax returns. A QCD allows individuals who are 70½ years or older to make direct transfers from their Individual Retirement Accounts (IRAs) to eligible charities.

1.2 The Importance of QCDs for Non-Itemizers

QCDs provide a significant tax advantage for retired individuals who do not itemize deductions. By making a QCD, these individuals can fulfill their required minimum distributions (RMDs) from their IRAs while excluding the distribution from their taxable income. This exclusion effectively reduces their overall tax liability and enables them to support charitable causes without losing the tax benefits.

Section 2: Donor-Advised Funds (DAFs)

2.1 Understanding Donor-Advised Funds

Donor Advised Funds (DAFs) offer a flexible and strategic approach to charitable giving. DAFs are philanthropic vehicles that allow

donors to contribute to a fund and recommend grants to charitable organizations over time.

2.2 Tax Advantages of DAFs

Contributions to DAFs are generally tax-deductible in the year they are made, providing an immediate tax benefit. By donating appreciated assets to a DAF, donors can also avoid capital gains tax on the appreciation. Furthermore, DAFs provide donors with the opportunity to time their charitable grants strategically, taking advantage of tax planning opportunities or responding to specific charitable needs.

Section 3: Annuities Left to Charity

3.1 Annuities as Charitable Gifts

Annuities can serve as effective vehicles for charitable giving while also providing financial security for the donor. By designating a charitable organization as the beneficiary of an annuity, donors can leave a lasting legacy while enjoying certain tax benefits.

3.2 Tax Benefits of Annuities Left to Charity

When an annuity is passed on to a charitable organization, it is typically exempt from income tax. This tax advantage allows donors to contribute to their preferred charitable cause while potentially reducing their taxable estate. Additionally, donors may be eligible for an income tax deduction based on the present value of the remainder interest that will eventually be received by the charitable organization.

Section 4: Types of Charitable Trusts

4.1 Exploring Charitable Trusts

Charitable trusts offer unique opportunities for tax-efficient charitable giving. Two common types of charitable trusts are Charitable Remainder Trusts (CRTs) and Charitable Lead Trusts (CLTs). CRTs provide income to the donor or designated beneficiaries for a specified period, with the remainder going to charity. CLTs, on the other hand, provide income to a charitable organization for a specified period, with the remainder returning to the donor or designated beneficiaries.

4.2 Tax Advantages of Charitable Trusts

Charitable trusts provide various tax benefits, including income tax deductions for contributions, potential reduction of estate tax liability, and the ability to defer capital gains taxes on appreciated assets. These trusts offer donors flexibility in structuring their charitable giving while minimizing tax burdens.

As you embark on your charitable giving journey, it is essential to consult with a qualified tax professional or financial advisor who can guide you through the complexities and nuances of these strategies. They can help you tailor your approach to maximize the tax advantages while ensuring your philanthropic efforts have the greatest possible impact.

By leveraging the tax advantages of charitable giving, you have the opportunity to create a meaningful legacy while optimizing your financial situation. Your generosity can make a difference in the lives of others, while the tax benefits provide a positive ripple effect in your own financial planning.

Embrace the power of tax-efficient charitable giving and experience the transformative potential it holds for both your personal fulfillment and the betterment of society as a whole.

Chapter Seven

Maximizing Social Security Benefits: Strategic Tax Reduction for a Secure Retirement

Introduction

Understanding the taxation of Social Security benefits is essential for optimizing your retirement income. The impact of taxes on these benefits can significantly affect your financial well-being. However, fear not! In this chapter, we will explore effective strategies to minimize or eliminate taxes on your Social Security benefits by reducing taxable income. By leveraging tools such as Roth accounts, capital gain assets, tax-deferred investments, and Roth conversions, you can pave the way towards a tax-efficient retirement while safeguarding your hard-earned benefits.

The Basics of Social Security Taxation

To optimize your tax situation, let's begin by clarifying the fundamentals. Social Security benefits may be subject to federal income tax based on your provisional income, which is calculated by considering adjusted gross income (AGI), tax-exempt interest, and half of your Social Security benefits. Keeping your provisional income below certain thresholds is key to minimizing or eliminating taxes on your benefits.

Reducing Taxable Income with Roth Accounts

A powerful strategy for minimizing taxes on Social Security benefits is to utilize Roth accounts. Contributions to Roth IRAs or Roth 401(k)s are made with after-tax dollars, meaning that withdrawals in retirement are generally tax-free. By incorporating Roth accounts into your retirement savings plan, you can create a tax-efficient income stream that won't impact your Social Security taxation.

Leveraging Capital Gain Assets

Capital gain assets, such as stocks, mutual funds, or real estate, provide another avenue for reducing taxable income. When you sell these assets, they may generate capital gains, which are typically taxed at a lower rate than ordinary income. By strategically managing your capital gains, you can control your provisional income and potentially decrease the portion of your Social Security benefits subject to taxation.

Utilizing Tax-Deferred Investments

Tax-deferred investments, such as traditional IRAs or 401(k)s, allow you to postpone paying taxes until retirement. By deferring taxes, you can lower your current taxable income, potentially reducing the taxation on your Social Security benefits. However, it's important to note that withdrawals from these accounts will be taxed in retirement, so a balanced approach is necessary.

The Power of Roth Conversions

Roth conversions can be a game-changer for reducing taxes on Social Security benefits. By converting funds from a traditional IRA or 401(k) to a Roth account, you pay taxes upfront but enjoy tax-free growth and withdrawals in the future. Implementing strategic Roth conversions before you begin receiving Social Security benefits can optimize your tax situation and minimize the impact on your benefits.

Seeking Professional Guidance

Navigating the complexities of Social Security taxation requires expert knowledge. Engaging the services of a knowledgeable financial advisor or tax professional can provide invaluable guidance tailored to your specific circumstances. A professional can assess your income sources, assets, and goals to develop a comprehensive strategy that maximizes your Social Security benefits while minimizing taxes.

Conclusion

By implementing the strategies outlined in this chapter, you can proactively reduce or eliminate taxes on your Social Security benefits.

Leveraging tools like Roth accounts, capital gain assets, tax-deferred investments, and strategic Roth conversions will enable you to optimize your tax situation and secure a more prosperous retirement. Remember, minimizing taxable income is vital to preserving the full value of your hard-earned benefits. Take control of your financial future by implementing these strategies and working with a trusted advisor. Your golden years await!

Chapter Eight

Expert Guidance for a Secure Retirement: The Essential Role of Customized Financial Planning

I cannot stress enough the importance of customizing your tax, income, and retirement planning with the guidance of an expert. Everyone's financial situation is unique, and a one-size-fits-all approach simply won't cut it. By working with a skilled professional, you can craft a tailored strategy that aligns with your goals, optimizes tax efficiency, and maximizes your retirement income. A well-informed plan will not only give you peace of mind but also empower you to make sound decisions that secure your financial future. Remember, investing in expert advice today will yield long-lasting benefits throughout your golden years. To illustrate the value of such guidance, let's conclude with a compelling case study that highlights the contrasting outcomes and unique advantages of professional retirement planning.

The Tale of Two Retirees: A Modern-Day Retirement Case Study

The Divergent Paths to Retirement

Two friends, colleagues and clients, William and Charles, reached the end of their working years. They supported each other through life's ups and downs during their careers. However, as they transitioned into retirement, their financial strategies diverged, leading them down two distinct yet equally rewarding paths.

Chapter One: William's Journey to Financial Security

William, a disciplined saver and planner, decided to delay his Social Security benefits until the age of 70. This decision allowed him to build a larger benefit for his spouse, Emily, and gave him more time to complete Roth conversions.

In the years leading up to age 70, William strategically converted portions of his traditional IRA into a Roth IRA, spreading out the tax liability and minimizing taxes on future distributions. His strategy provided a tax-free

income for himself and Emily during retirement.

William's long life expectancy, combined with his prudent financial decisions, ultimately provided a substantial and reliable source of income for him and Emily, ensuring a comfortable and fulfilling retirement.

Chapter Two: Charles' Early Retirement Adventure

Charles, on the other hand, chose to retire early and focus on building his Roth IRA. By converting his traditional IRA into a Roth IRA before retirement, Charles accumulated a significant amount in his tax-free account. This allowed him to start taking Social Security benefits early without compromising his financial security.

Charles and his spouse, Elizabeth, enjoyed their early retirement years by traveling, volunteering for environmental causes, and pursuing their hobbies in photography and art. The combination of early Social Security benefits and tax-free distributions from the Roth IRA

provided them with a steady income, enabling them to maintain their desired lifestyle.

Chapter Three: Comparing Retirement Strategies

Years later, William and Charles reconnected and shared their retirement experiences. They marveled at the different paths they had chosen and how each had led to a prosperous and fulfilling retirement.

They agreed that the key to their financial success lay in working with an expert, meticulous planning, flexibility, and adaptability. Both William and Charles had carefully considered their individual circumstances, goals, and life expectancies when making their retirement decisions.

Chapter Four: The Importance of Personalized Retirement Planning

William and Charles' stories serve as a testament to the importance of personalized retirement planning in the modern era. Their

experiences remind us that there is no one-size-fits-all approach to retirement.

By understanding the nuances of Lifetime Income Planning, Social Security benefits, Roth conversions, and individual circumstances, both retirees were able to create stable and comfortable retirements for themselves and their spouses. Their stories offer valuable lessons in the power of knowledge, foresight, and perseverance, inspiring future generations of retirees to create their own paths to financial security.

Conclusion

Navigating the Ever-Changing Tax Landscape: Securing Your Retirement with Expert Guidance

Congratulations! You have reached the end of this comprehensive guide on personal retirement tax planning. Throughout this book, we have explored various strategies, loopholes, and opportunities to optimize your retirement savings and minimize your tax liabilities. As we conclude this journey, it is important to reflect on the dynamic nature of tax laws and emphasize the vital role of working with a qualified advisor to navigate the changing tax landscape.

At the time of writing, the Tax Cuts and Jobs Act (TCJA) has been a significant factor in shaping tax policies. However, it's important to note that the TCJA is set to sunset in 2025, potentially leading to higher tax rates in the future. Additionally, other legislative changes may arise that can impact retirement tax

planning strategies. What may be advantageous today, like the Roth conversion, may not be available or beneficial tomorrow.

By enlisting the services of a qualified advisor, such as our esteemed firm, you can stay ahead of these potential changes and adapt your retirement tax planning strategies accordingly. A knowledgeable advisor stays abreast of evolving tax laws, regulations, and financial trends, ensuring that your retirement plan remains optimized and aligned with your long-term goals.

Moreover, time is of the essence. As you read this book, the financial landscape is continually shifting. Tax laws may be altered, new provisions may emerge, and strategies that are currently available might not be so in the future. Acting promptly and seeking expert advice allows you to seize the opportunities available today, maximizing your retirement savings and minimizing your tax burden.

Remember, the importance of working with a qualified advisor cannot be overstated. Their expertise and experience in retirement tax planning can help you navigate complexities,

identify opportunities, and make informed decisions. As you embark on your retirement journey, consider partnering with a trusted advisor who can provide personalized guidance tailored to your unique circumstances and adapt your plan as the tax landscape evolves.

In conclusion, securing your retirement through effective tax planning requires ongoing vigilance and strategic action. The team at our firm is dedicated to helping you stay on top of changing tax laws, maximizing your retirement savings, and ensuring a financially secure future. Act fast, take advantage of the current opportunities available, and empower yourself with the knowledge and support of a qualified advisor.

Remember, your retirement is too important to leave to chance. Take the necessary steps today to secure a prosperous and tax-efficient retirement tomorrow.

OUR GIFT TO YOU – As a thank you for reading this book

Introducing our CFG Retirement Road Map! This is a customized plan that evolves with your life and adapts to the ever-changing financial landscape. Our comprehensive approach considers your financial strategy for taxes, Social Security, investments, healthcare, retirement income, investment fees, risk management, and legacy planning. Get a second opinion or a brand-new plan, all at no cost to you.

Are you ready to take control of your financial destiny? Connect with us in four easy ways:

- Schedule a 15-minute strategy phone meeting:
calendly.com/creative-financial-group/discovery-call
- Call **(317) 788-1562** to arrange an in-office strategy session.
- Email us
at **CFG@CFDinvestments.com**
- Visit our website and book a meeting at
www.creativefinancialgrp.com

Don't let procrastination stand in the way of a prosperous retirement. Partner with a trusted advisor who understands the ins and outs of taxes, planning rules and can address all aspects of your financial life. Let's create a future you can look forward to.

We hope our CFG Retirement Road Map inspires you to make informed decisions and take advantage of tailored strategies designed just for you. Our process ensures you minimize taxes, safeguard your income, maximize your Social Security benefits, adhere to financial rules, manage investment risks, reduce fees, and leave a meaningful legacy.

Contact us today, and let us help you pave the path to peace and financial freedom. Together, we can secure a retirement that rewards your years of dedication and hard work. We look forward to speaking with you soon.

Bonus Section Backdoor Roth:

If your income exceeds the eligibility limits for a Roth IRA, you can still take advantage of its benefits by using a strategy known as the

"backdoor Roth IRA." This technique involves making a non-deductible contribution to a traditional IRA and then converting that contribution to a Roth IRA. Here's a step-by-step guide on how to execute the backdoor Roth IRA strategy:

1. **Open a traditional IRA:** If you don't already have a traditional IRA, you'll need to open one. This is something our office is happy to help with. Our advisors are experts in the backdoor Roth strategy.
2. **Contribute to the traditional IRA:** Make a non-deductible contribution to your traditional IRA. Remember that the contribution limits for traditional and Roth IRAs are the same, so you can contribute up to \$6,500 for 2023 (\$7,500 if you're age 50 or older).
3. **Keep track of your non-deductible contributions:** It's essential to keep track of your non-deductible contributions to your traditional IRA, as this information will be needed when you file your taxes. You'll need to file IRS Form 8606 to

report these contributions and keep a record of your cost basis.

4. Convert the traditional IRA to a Roth IRA: Once your non-deductible contribution has been made, you can convert the funds to a Roth IRA. Contact your financial institution to initiate the conversion. Keep in mind that any pre-tax contributions and earnings in the traditional IRA will be subject to income tax upon conversion.
5. Pay taxes on the conversion, if applicable: If you have any pre-tax contributions or earnings in your traditional IRA, you will need to pay income tax on those amounts when you convert to a Roth IRA. However, the non-deductible contributions you made will not be taxed again during the conversion. There is a big advantage if all of your IRA money is made up of non-deductible contributions. If you immediately convert, you can usually avoid paying any taxes. **THIS DOES NOT WORK AS WELL** if you have a large balance in Rollover or Deducted

contributions in any IRA, not just the one you are converting. The IRS considers an IRA as one even if you have it spread out in multiple accounts.

6. Wait for the five-year rule: To avoid taxes and penalties on earnings from the backdoor Roth IRA, you must wait five years from the beginning of the tax year in which you made the conversion before withdrawing the earnings. The contributions, however, can still be withdrawn tax-free and penalty-free at any time, as they were already taxed.

It's important to consult with a financial professional before executing a backdoor Roth IRA strategy, as it may not be suitable for everyone. Additionally, be aware of potential tax implications and the need to track your non-deductible contributions carefully.

Bonus Section Unraveling the Taxation Maze of Company-Sponsored Stock Options, Restricted Stock, and Deferred Compensation Plans

In the world of employee compensation, companies often use various stock-based incentives to attract and retain talented individuals. These incentives come in the form of stock options, restricted stock, and deferred compensation plans. While they can be valuable assets, understanding the taxation behind them is crucial to make the most of these benefits. In this section, we will demystify the taxation rules associated with these company-sponsored programs, equipping you with the knowledge to navigate this complex landscape.

Section 1: Company Stock Options

1.1 Understanding Stock Options

Stock options are a popular form of employee compensation, granting employees the right to purchase company stock at a predetermined price within a specified timeframe. The tax treatment of stock options primarily depends on whether they are qualified or non-qualified.

1.2 Taxation of Qualified Stock Options

When exercising qualified stock options, the tax event occurs upon the sale of the acquired stock. The difference between the exercise price and the fair market value at the time of exercise is considered ordinary income, subject to applicable income tax rates. Any subsequent gains or losses are treated as capital gains or losses.

1.3 Taxation of Non-Qualified Stock Options

Non-qualified stock options are subject to different taxation rules. Upon exercise, the difference between the fair market value and the exercise price is considered ordinary income and is subject to income tax and, in some cases, payroll taxes. Any further gains or losses are treated as capital gains or losses.

Section 2: Restricted Stock

2.1 Understanding Restricted Stock

Restricted stock refers to shares granted to employees that are subject to certain restrictions or conditions. The tax implications of restricted

stock depend on whether it is vested or unvested.

2.2 Taxation of Vested Restricted Stock

When restricted stock becomes vested, it is considered ordinary income, and the fair market value of the shares at that time is subject to income tax. The employer typically withholds taxes on the vested shares, and the employee receives the remaining shares.

2.3 Taxation of Unvested Restricted Stock

Unvested restricted stock does not trigger an immediate tax event. However, once the shares become vested, they are subject to ordinary income tax at their fair market value at that time.

Section 3: Deferred Compensation Plans

3.1 Understanding Deferred Compensation Plans

Deferred compensation plans allow employees to defer a portion of their salary or bonuses to a

later date, usually retirement. The deferred amounts grow tax-deferred until they are paid out.

3.2 Taxation of Deferred Compensation Plans

When the deferred compensation is distributed to the employee, it is generally treated as ordinary income and subject to income tax at that time. However, if certain conditions are met, such as distribution upon retirement, there may be opportunities for favorable tax treatment.

Section 4: The Little-Known 83(b) Election: Advantages and Disadvantages

4.1 Understanding the 83(b) Election

While not directly related to stock options, restricted stock, or deferred compensation plans, it is worth mentioning the lesser-known 83(b) election. This election applies specifically to the taxation of restricted stock and can have significant implications for employees.

4.2 Advantages of the 83(b) Election

The 83(b) election allows employees to include the value of unvested restricted stock in their taxable income at the time of grant rather than at the time of vesting. By doing so, any future appreciation in the stock's value is taxed as capital gains instead of ordinary income when the shares are sold. This can result in potentially substantial tax savings, especially if the stock value appreciates significantly over time.

4.3 Disadvantages of the 83(b) Election

While the 83(b) election can be advantageous, it also comes with potential risks. By including the value of unvested shares in taxable income, employees must pay taxes upfront, even if the shares never vest or the value declines. If an employee leaves the company before the shares vest, they would have paid taxes on an asset they never received. Therefore, careful consideration and analysis of the company's financial stability and future prospects are crucial before making an 83(b) election.

4.4 Seeking Professional Advice

Given the complexities and potential ramifications of the 83(b) election, it is essential to consult with a qualified tax professional before making any decisions. They can evaluate your specific circumstances, weigh the advantages and disadvantages, and guide you in determining whether an 83(b) election is suitable for your situation.

By understanding the 83(b) election and its potential benefits and drawbacks, employees can make informed choices regarding the taxation of their restricted stock and optimize their long-term financial outcomes.

Conclusion:

The taxation rules surrounding company-sponsored stock options, restricted stock, and deferred compensation plans can be intricate and overwhelming. However, with the knowledge gained from this chapter, you are better equipped to navigate this complex landscape. Remember to consult with a qualified tax professional to ensure you are making informed decisions and maximizing the

advantages of these programs while minimizing your tax liabilities.

As you continue your journey through the world of employee compensation, remember that staying informed and seeking professional guidance will help you make the most of these valuable assets. With the right knowledge and a proactive approach, you can navigate the taxation maze with confidence and secure a brighter financial future.

KURT SUPE, CPA



TAX-SMART RETIREMENT

Saving enough for retirement is challenging for many people, and once you get there, it may be shocking to discover how much of that nest egg must be paid to the IRS each year in the form of taxes. If you have a retirement plan such as a 401(k), 403(b), thrift savings plan or IRA, then there may be steps you can take to avoid overpaying taxes.

It may not be evident to you that the funds you have saved for years and years may be subject to much higher taxes in the future. Unfortunately, the United States is politically divided, debt-ridden and very engaged in deficit spending. The pending insolvency of our Social Security system is creating a need to overtax those Americans with significant income and savings, which includes retirement funds that have never been taxed.

It is inevitable that we will be faced with higher tax rates as government leaders vote to increase taxes to cover these shortages.

In this book, I will teach you how to use the tax code to your advantage and significantly reduce your risk of overpaying the IRS when you retire. Whether you are a financial novice or very experienced, this is a must-read for anyone with more than \$250,000 in retirement plans.

