Financial Planning

Retirement Dilemma: How to Ease the Tax Hit

By **Miriam Rozen**
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Income tax bills often soar when a client turns 70 1/2, triggering what the IRS terms required mandatory distributions from tax-deferred retirement accounts.

If clients still want to pursue paid occupations because they enjoy them and gain a sense of self-worth, their income from work and the RMD together might bump them into a higher tax bracket.

"Your biggest lifetime expense is taxes," says Tom Sedoric, managing director of investments at The Sedoric Group of Wells Fargo Advisors in Portsmouth, N.H., who recommends whenever possible planning for what he calls the tax drag of deferred tax retirement accounts, long before clients retire.

"Proper tax planning needs to cross generations," says Sedoric, who recommends that financial advisors collaborate with tax attorneys to find ways when clients are in their 40s, 50s and 60s to move retirement assets to tax-free, rather than just tax-deferred, accounts. "Sometimes it is far better to pay the proverbial [tax] piper now rather than later."

Sedoric recognizes, however, that not all clients, or prospective clients, will have taken such steps. So by the time they celebrate their 71st birthdays, their RMDs may put them into a 40% tax bracket if they continue to command significant income from other sources and they don't want to give up that opportunity to engage as productive members of economic society.

Advisors can help these clients push into lower tax brackets, working with tax specialists, Sedoric says.

Clients might consider selecting paying non-refundable entrance fees ahead of time to a continuing care retirement community, which in excess of 7.5% of gross income may be deducted as prepaid medical expenses. The CCRCs offer a variety of services within one community and guarantee lifetime housing, social activities and increased levels of care as needs change.

Many of Dusty Wallace's clients have simply chosen to give away to a favorite charity their RMDs, rather than allow the funds to bump them into a higher tax bracket.

Wallace, who is the director of financial planning and the compliance officer at Lee Financial in Dallas, says: "If they can afford to give it away, that can work."

Before retirement and before clients face those choices, though, long-term tax planning will help clients choose if they want to work after they hit 70 1/2 but not pay significantly more to Uncle Sam.

Miriam Rozen is a staff writer for Texas Lawyer who writes about financial advisors.

This story is part of a 30-day series on retirement planning strategies.

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