

Are retirement benefits taxable?

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It is hard to believe the new year has begun and Tax Day is fast approaching. As you delve into your tax returns, it's helpful to understand the tax implications of your retirement benefits. While essential for financial security in later life, these accounts can have significant tax consequences both now and in the future. Let's take a look.

How retirement accounts are taxed

- Traditional Retirement Accounts (including Pre-Tax 401(k)s and Traditional IRAs) — contributions to a traditional IRA may be tax deductible in the contribution year, with current income tax due at withdrawal. Withdrawals prior to age 59½ may result in a 10 percent IRS penalty tax in addition to current income tax. The money you invest grows without being taxed annually.

If you have a Traditional IRA and are above the age of 70½, you can do a Qualified Charitable Distribution (QCD). This allows funds to be sent directly to the nonprofit from your IRA, avoiding tax liability on money you were already planning to donate with post-tax dollars.

- Roth Retirement Accounts are funded with your after-tax dollars. A Roth IRA offers tax deferral on any earnings in the account. Earnings on this account grow tax-free and compound over time. Qualified withdrawals of earnings from the account are tax-free. Withdrawals of earnings prior to age 59½ or prior to the account being opened for 5 years, whichever is later, may result in a 10 percent IRS penalty tax. Limitations and restrictions may apply.

There is a potential tax benefit here for those in lower tax brackets during their working years.

- Pensions are generally taxed as ordinary income when you receive them, however, some government pensions may have limited or no taxation.
- Social Security is partially taxable. Up to 85 percent of your Social Security benefits may be taxable, depending on your income level and filing status.
- Annuity tax treatment depends on the type of account.

Key considerations for taxes and retirement accounts

- **Tax bracket:** Your current and projected future tax bracket significantly impacts the tax implications of different retirement accounts. What is your tax bracket now and what might it be when you retire?
- **Withdrawal strategy:** How you withdraw funds from your retirement accounts can significantly impact your overall tax liability. What is your strategy for withdrawing money from your accounts?

We hope these tips help empower you with your finances and aid you during the new year as you prepare for Tax Day. If you need guidance, consult with one of our financial advisors or a tax professional who can help you develop a retirement income strategy that minimizes your tax liability and assists you in planning for your successful future.

Need help with financial goal setting and accountability? Learn more about our Inspired Wealth program here: <https://www.liveinspiredwealth.com/offer>.

Julia Carlson is a registered representative with and securities and advisory services offered through LPL Financial, a registered investment advisor. Member FINRA/SIPC.

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