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# PREVIEW

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## Tax Planning and Your Retirement



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## Our Federal Income Tax System

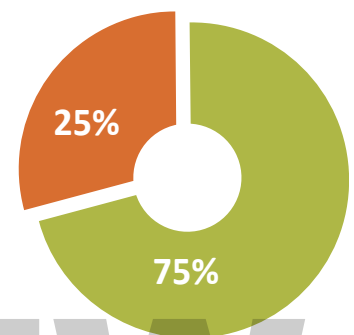
**Progressive.** The United States has a progressive tax system. Generally, the more taxable income you have, the higher the tax rate that will apply to your next dollar of income. For example, in 2026, a single filer is subject to a 10% tax rate on the first \$12,400 of taxable income, a 12% tax rate on taxable income above \$12,400 up to \$50,400 — and the rate continues to step up until it reaches a top marginal rate of 37%, which applies to taxable income over \$640,600. (See tax tables on pages 5–6.)

**Voluntary.** The federal income tax system has voluntary reporting. This simply means taxpayers are responsible for calculating their own taxes, reporting their taxes appropriately to the government, and paying any taxes due.

**Unequal.** Not everyone pays federal income tax equally. For the 2021 tax year, the top 50% of taxpayers were responsible for paying about 98% of total federal income taxes, as measured by reported adjusted gross income (AGI). About 75% of total federal income tax in 2021 was paid by the top 10% of filers — those with an adjusted gross income of \$169,800 or more.

Source: IRS Statistics of Income, 2022 (2021 data is most recent available.)

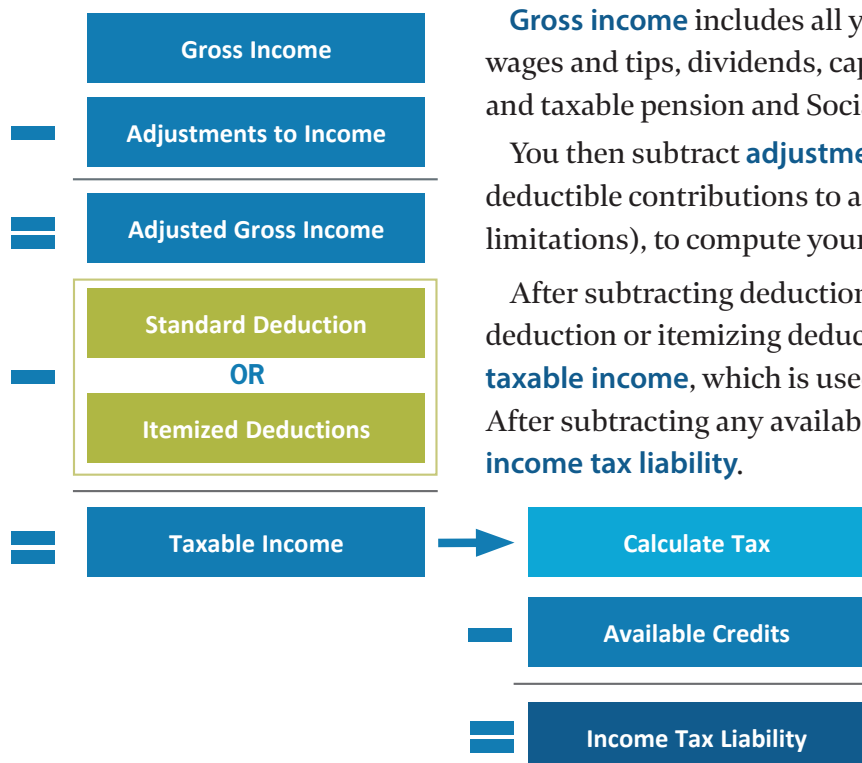
Percent of Total Federal Income Tax Paid for the Year



■ Top 10% of filers  
■ Bottom 90% of filers

## Federal Income Taxation at a Glance

This is a simple illustration of how the federal income tax system works.



**Gross income** includes all your taxable income, such as wages and tips, dividends, capital gains, interest income, and taxable pension and Social Security income.

You then subtract **adjustments to income**, such as deductible contributions to a traditional IRA (with limitations), to compute your **adjusted gross income**.

After subtracting deductions (using the standard deduction or itemizing deductions), you arrive at your **taxable income**, which is used to calculate your tax. After subtracting any available credits, you arrive at your **income tax liability**.

## Tax Provisions Permanently Extended Include:

- Lower marginal tax brackets
- Increased standard deduction amounts
- Elimination of personal exemptions
- Enhanced child tax credit
- Increased estate and gift tax exclusion
- Qualified business income deduction

## Annual Gift Tax Exclusion

The annual gift tax exclusion lets you transfer up to \$19,000 per person per year (2026 amount) to any number of individuals free of federal estate and gift taxes.

Amounts that exceed this annual exclusion are subject to the gift tax or would begin to deplete your estate and gift tax exclusion.

Gifts don't have to be outright gifts of cash. For example, you could give assets with high appreciation potential — such as shares of stock.

## Recent Tax Legislation

**The Tax Cuts and Jobs Act** was a sweeping \$1.5 trillion tax-cut package that passed in late 2017 and dramatically reshaped the tax landscape. The legislation made significant changes to the tax rules that govern businesses and that relate to individuals. Most of these tax changes were effective on January 1, 2018. While most of the changes affecting businesses were permanent, most of the changes affecting individuals were set to automatically expire at the end of 2025. So while you may not have realized it, many of the tax rules, including lower marginal tax rates, that you've perhaps become accustomed to, were set to expire this year.

**The One Big Beautiful Bill Act (OBBBA)**, signed into law July of last year, permanently extended most of these tax provisions. This legislation also added several important new deductions and made other significant changes. Major provisions include:

**Seniors: new deduction** — For 2025 through 2028, a new above-the-line deduction of \$6,000 is available for taxpayers age 65 or older, and married couples who file jointly can claim up to \$12,000 if both are 65 or older. This deduction is available for those who qualify, regardless of whether they itemize deductions or claim the standard deduction. The deduction begins to phase out for single filers with modified adjusted gross income (MAGI) over \$75,000 and married joint filers with MAGI over \$150,000, disappearing entirely at \$175,000 and \$250,000 MAGI, respectively.

**Taxes on tips and overtime** — Effective for tax years 2025 through 2028, workers in eligible industries can deduct significant amounts of tip or overtime income from federal taxable income. Tips up to \$25,000 and overtime up to \$12,500 for individuals (\$25,000 for joint filers) can be deducted. These deductions are phased out for higher income earners (above \$150,000 for single filers and \$300,000 for joint filers).

**SALT deduction cap** — Effective for 2025, the State and Local Tax (SALT) deduction cap rises from \$10,000 to \$40,000 (\$20,000 if married filing separately), offering eligible taxpayers who itemize deductions the opportunity to deduct a significantly larger share of state and local taxes. The cap will increase to \$40,400 in 2026, and by 1% for each of the following three years and will then drop back to \$10,000 in 2030. For those with MAGI above \$500,000 (\$250,000 for married individuals filing separately), the cap is reduced but never falls below \$10,000.

**Federal estate and gift tax lifetime exclusion amount** — OBBBA permanently extends the larger estate and gift tax exclusion amount that originated with the Tax Cuts and Jobs Act. For 2026, the federal estate and gift tax lifetime exclusion amount is \$15 million. The annual gift tax exclusion amount is \$19,000 for 2026.

# Understanding How Taxes Work

## 2026 Tax Tables, by Filing Status

Single filers	
If taxable income is:	Your tax is:
Not over \$12,400	10% of taxable income
Over \$12,400 to \$50,400	\$1,240 + 12% of the excess over \$12,400
Over \$50,400 to \$105,700	\$5,800 + 22% of the excess over \$50,400
Over \$105,700 to \$201,775	\$17,966 + 24% of the excess over \$105,700
Over \$201,775 to \$256,225	\$41,024 + 32% of the excess over \$201,775
Over \$256,225 to \$640,600	\$58,448 + 35% of the excess over \$256,225
Over \$640,600	\$192,979.25 + 37% of the excess over \$640,600

### Taxes Aren't Constant

U.S. tax laws change with relative frequency, which adds a layer of uncertainty when making financial decisions.

Additional tax changes are likely.

Head of household	
If taxable income is:	Your tax is:
Not over \$17,700	10% of taxable income
Over \$17,700 to \$67,450	\$1,770 + 12% of the excess over \$17,700
Over \$67,450 to \$105,700	\$7,740 + 22% of the excess over \$67,450
Over \$105,700 to \$201,750	\$16,155 + 24% of the excess over \$105,700
Over \$201,750 to \$256,200	\$39,207 + 32% of the excess over \$201,750
Over \$256,200 to \$640,600	\$56,631 + 35% of the excess over \$256,200
Over \$640,600	\$191,171 + 37% of the excess over \$640,600



# Understanding How Taxes Work

## 2026 Tax Tables, by Filing Status

### State Income Taxes

Eight states have no general income tax — Alaska, Florida, Nevada, New Hampshire, South Dakota, Tennessee, Texas, and Wyoming. (Washington taxes capital gains income of high-earning individuals.) For retirees, this means no state income tax on Social Security benefits, retirement plan withdrawals, and pension payouts.

Source:  
taxfoundation.org,  
December 19, 2025

### Married filing jointly and surviving spouses

If taxable income is:	Your tax is:
Not over \$24,800	10% of taxable income
Over \$24,800 to \$100,800	\$2,480 + 12% of the excess over \$24,800
Over \$100,800 to \$211,400	\$11,600 + 22% of the excess over \$100,800
Over \$211,400 to \$403,550	\$35,932 + 24% of the excess over \$211,400
Over \$403,550 to \$512,450	\$82,048 + 32% of the excess over \$403,550
Over \$512,450 to \$768,700	\$116,896 + 35% of the excess over \$512,450
Over \$768,700	\$206,583.50 + 37% of the excess over \$768,700

### Married filing separately

If taxable income is:	Your tax is:
Not over \$12,400	10% of taxable income
Over \$12,400 to \$50,400	\$1,240 + 12% of the excess over \$12,400
Over \$50,400 to \$105,700	\$5,800 + 22% of the excess over \$50,400
Over \$105,700 to \$201,775	\$17,966 + 24% of the excess over \$105,700
Over \$201,775 to \$256,225	\$41,024 + 32% of the excess over \$201,775
Over \$256,225 to \$384,350	\$58,448 + 35% of the excess over \$256,225
Over \$384,350	\$103,291.75 + 37% of the excess over \$384,350

## Effective Tax Rate

Another way to think about your tax situation is in terms of your effective tax rate, which is basically the total amount of tax paid divided by your taxable income.

A single filer with \$55,000 in taxable income would be in the 22% marginal tax bracket but would have an effective tax rate of 12.39%.

The formula for 2026 tax liability would be:

$$\begin{aligned} \text{First } \$12,400 \text{ at } 10\% &= \$1,240 \\ \text{Next } \$38,000 \text{ at } 12\% &= \$4,560 \\ \text{Next } \$4,600 \text{ at } 22\% &= \underline{\$1,012} \\ &= \underline{\$6,812} \\ \$6,812 \div \$55,000 &= 12.39\% \text{ effective tax rate} \end{aligned}$$



# Understanding How Taxes Work

## Long-Term Capital Gains and Qualified Dividends

If you sell stock, bonds, or other capital assets for more than you pay for them, you have **capital gains**. Capital gains receive special tax treatment, depending on how long you've held the asset generating the gain. If you held the asset for more than one year, the gain is treated as long term, which means it is subject to a more favorable tax rate. *Short-term gains on investments held 12 months or less are taxed at ordinary income tax rates.*

Qualified dividends, which are those that meet certain requirements, also benefit from the special rates that apply to long-term capital gains.

The rate that applies to long-term capital gains and qualified dividends is tied to your taxable income.

### 2026 Long-Term Capital Gains Tax Rates

Long-term capital gain & qualified dividend tax (taxable income thresholds)				
Single filers	Married filing jointly	Married filing separately	Head of household	Tax rate
Up to \$49,450	Up to \$98,900	Up to \$49,450	Up to \$66,200	0%
\$49,451 up to \$545,500	\$98,901 up to \$613,700	\$49,451 up to \$306,850	\$66,201 up to \$579,600	15%
More than \$545,500	More than \$613,700	More than \$306,850	More than \$579,600	20%

## Additional 3.8% Net Investment Income Tax

High-income taxpayers may also be subject to a 3.8% net investment income tax — sometimes referred to as the unearned income Medicare contribution tax. This tax continues to apply as an additional tax on investment income such as capital gains, dividends, interest, royalties, rents, and passive income if a high-income taxpayer's modified adjusted gross income exceeds:

- \$200,000 Single filers
- \$250,000 Married filing jointly
- \$125,000 Married filing separately
- \$200,000 Head of household

This additional tax does not apply to retirement income from IRAs or employer-sponsored retirement plans.

## Taxation of Investment Distributions

When mutual funds are held in taxable accounts, fund distributions are taxable to shareholders — as short-term and/or long-term capital gains, dividends, or interest — for the year in which they are received, even if distributions are reinvested in new shares.

If your capital losses exceed your capital gains, you can deduct the difference as a loss on your tax return. The loss is limited to \$3,000 per year (\$1,500 if married and filing a separate return).



# Understanding How Taxes Work

## Alternative Minimum Tax

If you're subject to the AMT in one year, you may be entitled to a credit that can be applied against regular tax liability in future years.

The alternative minimum tax (AMT) is essentially a separate, parallel federal income tax system with its own tax rates and rules. If you're subject to the AMT, you have to calculate your taxes twice — once under the regular tax system and again under the AMT system. If your income tax liability under the AMT is greater than your liability under the regular tax system, the difference is reported as an additional tax on your federal income tax return.

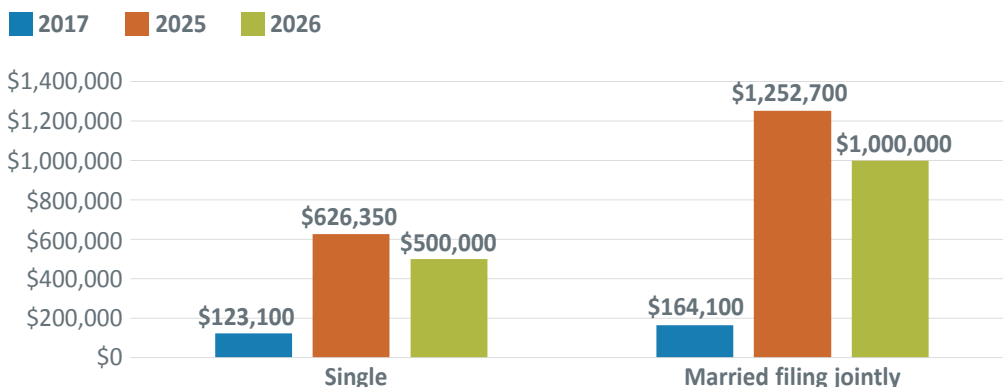
The Tax Cuts and Jobs Act significantly narrowed the application of the AMT by increasing AMT exemption amounts and dramatically increasing the income thresholds at which the exemptions begin to phase out. The One Big Beautiful Bill Act made the increased exemption amounts permanent but slightly reduced the income thresholds for the AMT exemption phaseout back to their original levels under the Tax Cuts and Jobs Act. More significantly, the rate at which the exemption amount is reduced now increases from 25% to 50% of the amount of income exceeding the threshold amount.

There are two tax brackets for calculating AMT taxes. For 2026, single filers, married joint filers, and heads of households pay a tax rate of 26% on alternative minimum taxable income (AMTI) up to \$244,500 (\$122,250 if married filing separately). The tax rate increases to 28% on AMTI above this amount.

### AMT Exemption Amounts



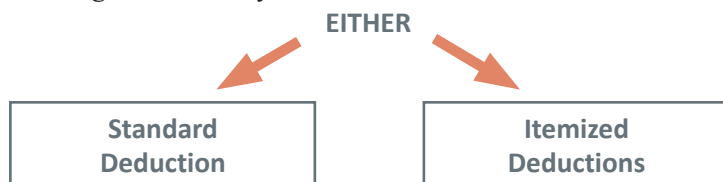
### AMT Phaseout Thresholds



# Understanding How Taxes Work

## Choosing the Standard Deduction or Itemizing Deductions

When you calculate your federal income tax, you generally have a choice between taking the standard deduction — a fixed dollar amount that's based primarily on your filing status — or itemizing allowable deductions on Schedule A of IRS Form 1040. Typically, you would itemize deductions if your deductions are greater than your standard deduction.



The Tax Cuts and Jobs Act roughly doubled prior standard deduction amounts (through 2025) but eliminated the deduction for personal exemptions that was worth \$4,050 in 2017. The One Big Beautiful Bill Act made the increased standard deduction amounts and elimination of the personal exemption permanent.

### Standard Deduction Amounts

Filing Status	2017	2025	2026
Single or married filing separately	\$6,350	\$15,750	\$16,100
Head of household	\$9,350	\$23,625	\$24,150
Married filing jointly	\$12,700	\$31,500	\$32,200

### Additional Standard Deduction Amounts for Blind or Those Age 65+

Filing Status	2017	2025	2026
Single or head of household	\$1,550	\$2,000	\$2,050
All other filing statuses	\$1,250	\$1,600	\$1,650

### New — Additional Deduction for Seniors (2025–2028)

OBBBA established a new deduction of \$6,000 for individuals age 65 or older; married couples who file jointly can claim up to \$12,000 if both are 65 or older. This deduction is available regardless of whether individuals itemize deductions or claim the standard deduction. The deduction phases out for higher-income individuals.

### New — Charitable Deduction for Non-Itemizers

Starting in 2026, individuals who do not itemize their deductions can still claim a charitable deduction of up to \$1,000 (\$2,000 if married filing jointly). To qualify, contributions have to be made in cash to a public charity and meet other general requirements.

### Fewer Taxpayers Are Itemizing Deductions

About 15.3 million households claimed itemized deductions on their 2022 tax returns — down from 46.8 million taxpayers during the 2017 tax year. This decline is largely the result of the increase in standard deduction amounts and the curb in itemized deductions by the Tax Cuts and Jobs Act and OBBBA.

Source:  
IRS Statistics of Income



# Understanding How Taxes Work

## Itemized Deductions

The Tax Cuts and Jobs Act repealed an overall limit on itemized deductions for high-income taxpayers and made several additional changes to individual deductions. OBBBA made many of these changes permanent, while adding some new wrinkles, including a brand new cap on the value of itemized deductions for those in the top 37% marginal tax bracket. Starting in 2026, the value of itemized deductions is capped at the benefit the itemized deductions would provide to someone in the 35% marginal tax bracket. Those in the top 37% marginal tax bracket will face a small reduction.

**Medical expenses.** Qualifying medical expenses are generally deductible only to the extent that they exceed a percentage of your adjusted gross income (AGI). The AGI threshold for deducting unreimbursed medical expenses is permanently set at 7.5%.

**Home mortgage interest deduction.** The Tax Cuts and Jobs Act lowered the annual cap on deductible mortgage interest to \$750,000 in acquisition debt.\* (Mortgages taken out on or before December 15, 2017, are grandfathered under the prior \$1 million limit.\*)

Interest on home equity loans and home equity lines of credit used to buy, build, or substantially improve your main home or a second home remains deductible because such debt is considered acquisition debt and continues to be subject to the dollar limits on qualified mortgage debt. However, home equity loans and lines of credit that are not used to buy, build, or substantially improve your main home or a second home are considered home equity debt. Interest on home equity debt is no longer deductible under the new rules.

\*One-half this amount if married filing separately

**State and local taxes (SALT).** The Tax Cuts and Jobs Act instituted a \$10,000 annual cap on itemized deductions for state and local taxes paid — including property taxes. This provision had a significant impact on taxpayers in high-tax states.

The One Big Beautiful Bill Act increased the \$10,000 annual cap to \$40,000 for 2025 (\$40,400 for 2026) — this increased cap is reduced for those with modified adjusted gross incomes exceeding \$505,000 in 2026, but the deduction will never be decreased below \$10,000. Beginning in 2030, the cap will return to \$10,000.

**Acquisition debt** is debt used to buy, build, or substantially improve a qualifying residence or a second home.

HELOC and home equity loan proceeds used to buy, build, or substantially improve a qualifying residence are acquisition debt.

**Home equity debt** is debt secured by a qualifying residence that is not acquisition debt. Home equity debt is NOT deductible.

# Understanding How Taxes Work

## Other Recent Changes

- **Beginning in 2026, OBBBA established a new 0.5% floor for those claiming charitable deductions as itemized deductions.**
- **Deduction for personal casualty and theft losses eliminated except for casualties resulting from federally, and starting in 2026, certain state-declared disasters.**
- **Gambling losses are now only 90% deductible.**
- **New itemized deduction for educator expenses is available for 2026 (in addition to the existing \$350 educator expense deduction that can be claimed regardless of whether deductions are itemized).**
- **Miscellaneous itemized deductions that used to be subject to the 2% AGI threshold, including tax preparation expenses and unreimbursed employee business expenses, are no longer deductible.**

## SECURE 2.0

**Later age for required minimum distributions (RMDs).** The 2019 SECURE Act raised the age at which retirement savers must begin taking distributions from their traditional IRAs and most work-based retirement savings plans to 72. SECURE 2.0 raised that age again to 73 beginning in 2023 and 75 in 2033.

**Reduction in the RMD excise tax.** Prior law required those who fail to take their full RMD by the deadline to pay a tax of 50% of the amount not taken. The new law reduced that tax amount to 25% starting in 2023; the tax is further reduced to 10% if account holders take the full required amount and report the tax by the end of the second year after it was due and before the IRS demands payment.

**No RMDs from Roth 401(k) accounts.** Bringing Roth 401(k)s and similar employer plans in line with Roth IRAs, the legislation eliminates the requirement for savers to take minimum distributions from their work-based plan Roth accounts as of 2024.



# Managing Your Tax Liability

## Exceptions to Early-Withdrawal Penalty

Most tax-deferred plans have exceptions to the 10% penalty for withdrawals prior to age 59½, including distributions resulting from death or disability, distributions used to pay unreimbursed, qualified medical expenses exceeding 7.5% of adjusted gross income, and distributions relating to a federally declared disaster or to a terminal illness.

IRAs have additional exceptions, including distributions that are used to pay qualified higher-education expenses, purchase a first home (\$10,000 lifetime limit), or are part of a series of substantially equal periodic payments.

By arranging to have a mix of tax-advantaged, taxable, and tax-free income in retirement, you generally have more flexibility to manage your overall tax liability and stay under annual income thresholds that could trigger higher monthly Medicare premiums and a higher percentage of your Social Security benefits becoming taxable.

## IRAs and Employer-Sponsored Retirement Plans

IRAs and employer-sponsored retirement plans like the 401(k) have a big initial tax advantage — deductible contributions to a traditional IRA and pre-tax contributions to an employer-sponsored retirement plan can reduce your current taxable income, and funds in these accounts accumulate tax deferred.

However, contributions to deductible and pre-tax accounts and any earnings from future growth will be taxed as ordinary income when withdrawn — even if the account holds liquid assets or investments that generate long-term capital gains or qualified dividends. If you've made after-tax contributions to an employer plan or IRA, any portion of a distribution that represents a return of your after-tax contributions will not be taxed.

Early distributions taken prior to age 59½ may be subject to a 10% penalty tax, unless an exception applies. If you retire during the year you reach age 55 or later (age 50 or younger for qualified public safety employees\*), distributions from your employer plan won't be subject to the 10% penalty. IRAs have different rules about penalty-free early withdrawals.

Traditional IRAs and pre-tax employer-sponsored retirement accounts are subject to required minimum distributions. Many investors forget that these mandatory distributions can increase their taxable income and might move them into a higher tax bracket.

**Inherited retirement assets.** Beneficiaries who inherited retirement funds — in a traditional IRA, Roth IRA, or work-based retirement plan — prior to 2020 are subject to annual RMDs after the death of the original account owner. For retirement accounts inherited *after* 2019, most non-spouse beneficiaries must liquidate the inherited assets within 10 years. Spousal beneficiaries have additional distribution options, including stretching distributions over their own lifetimes.

\*Qualified public safety employees, state and local corrections officers, and private-sector firefighters are not subject to the 10% penalty if they leave the job after reaching age 50, or after leaving the job after at least 25 years of service with the employer sponsoring the plan, regardless of age.



## Required Minimum Distribution Rules

When you reach a certain age, you must start taking annual distributions from your traditional IRAs and employer-sponsored retirement plans. For a long time, that age was 70½. Now, the age that you have to start taking required minimum distributions depends on the year you were born. So, if you were born July 1, 1949, through 1950, your required beginning age is 72. If you were born in 1951 through 1959, your required beginning age is 73. If you were born in or after 1960, your required beginning age is 75. Your RMD is the minimum amount you must withdraw from your accounts each year, but you can always take more. One exception occurs when you are still working for the employer sponsoring the retirement plan, in which case you don't have to take an RMD from that plan until you stop working for the employer, although you must still take RMDs from all other tax-deferred retirement plans.

- **Failure to take the required amount could result in a 25% penalty on the amount that should have been withdrawn. (The penalty can be reduced to 10% if you self-correct within two years.)**
- **Annual RMDs will depend on your life expectancy and the value of your accounts on December 31 of the previous year.**

Your first distribution can be delayed up to April 1 of the year following the year you reach your required beginning age.

**Life expectancy tables.** The life expectancy tables in Appendix B of IRS Publication 590-B can be used to help compute RMDs. Table I, Single Life Expectancy, is intended for use by beneficiaries. Table II, Joint Life and Last Survivor Expectancy, is intended for owners whose spouses are more than 10 years younger and are the sole beneficiaries of their IRAs. Table III, Uniform Lifetime, is for use by unmarried owners, married owners whose spouses are not more than 10 years younger, married owners whose spouses are not the sole beneficiaries of their IRAs, and surviving spouses who are the sole beneficiary. **Note:** The IRS has updated the life expectancy and distribution period tables to reflect longer life expectancies than were used earlier; the changes took effect in 2022 and are reflected in the table shown here.

## Roth Accounts

Contributions to a Roth IRA are not tax deductible, and income eligibility limits apply, but qualified Roth distributions — including any earnings — are tax-free and penalty-free. Generally, a Roth distribution is considered “qualified” if it meets a five-year holding requirement and you are age 59½ or older, become permanently disabled, or die (other exceptions may apply).

Roth IRAs are not subject to RMDs (if you're the original owner). As of 2024, you do not have to take lifetime RMDs from your Roth employer plan accounts.

A Roth employer account distribution that hasn't satisfied the five-year holding requirement is not yet qualified for a tax-free and penalty-free distribution, and rolling the assets to a new Roth IRA restarts the clock; you would have to wait five more years until a Roth IRA distribution would be qualified and tax-free.

**IRS Uniform Lifetime Table**  
Abbreviated,  
Effective January 1, 2022

Age	Distribution period
72	27.4
73	26.5
74	25.5
75	24.6
80	20.2
85	16.0
90	12.2

$$\frac{\text{Account balance}}{\text{Distribution period}} = \text{RMD}$$

If you have a Roth account in addition to a traditional IRA, a work-based retirement plan, and taxable investment accounts, you will want to consider a withdrawal plan that factors in overall tax minimization.

Eligibility to contribute to a Roth IRA in 2026 phases out at modified adjusted gross incomes of \$153,000 to \$168,000 for single filers and \$242,000 to \$252,000 for married joint filers

Roth accounts can play an important role in legacy planning because the tax-free treatment of distributions applies to beneficiaries who may inherit them.

## Roth IRA Conversion

Today's comparatively low marginal income tax rates might make this a good time to evaluate the potential benefits of converting assets to a Roth IRA — especially if you believe that high RMDs from traditional IRAs and employer-sponsored plans will push you into a higher tax bracket in retirement.



- **Converted assets are subject to federal income tax in tax year of the conversion.**
- **Any future growth is free of federal tax.**
- **You cannot recharacterize a Roth conversion.**

Although you must pay ordinary income tax on any pre-tax assets that are converted in the tax year of the conversion, any future growth in the Roth account will be free of federal income tax and usually state income tax.

One major consideration is that the converted amount could move you into a higher tax bracket in the year of the conversion. To avoid this, you could make partial Roth conversions over several years to keep your income within the same tax bracket. Also consider using taxable assets rather than the proceeds from the converted account to pay the conversion tax cost. Otherwise, it could reduce the potential benefit of tax-free growth, and if you're under age 59½, the withdrawal would be subject to a 10% tax penalty.

## How Social Security Benefits Are Taxed

Since 1984, Social Security benefits have been subject to federal tax when income exceeds certain limits. Typically, benefits are taxed only if you have substantial income in addition to Social Security benefits. If your “combined income” exceeds the levels shown here, you may owe federal income tax on up to 50% or 85% of your Social Security benefits.

Taxable portion of benefits	Combined income single filers 	Combined income married joint filers 
0%	Under \$25,000	Under \$32,000
Up to 50%	\$25,000 to \$34,000	\$32,000 to \$44,000
Up to 85%	Over \$34,000	Over \$44,000

The IRS formula used to determine combined income is based on adjusted gross income (with potential adjustments), plus tax-exempt interest, plus 50% of your Social Security benefits. Qualified distributions from Roth IRAs and health savings accounts are not included in determining whether your benefits are taxable.

### Five-Year Rule

If you withdraw any portion of the amount converted to a Roth IRA within five years, you may have to pay a 10% early-distribution penalty, unless you've reached age 59½ or qualify for an IRS exception.

The five-year holding period starts on January 1 of the year you convert assets to a Roth IRA. If you have more than one conversion, each has its own separate five-year holding period.

## How a Higher Income Affects Taxability of Social Security Benefits

The higher your income, the more likely it is that your Social Security benefits will be taxed. This is where the impact of having tax-free income comes into play.

To potentially reduce the amount of tax on Social Security benefits, you would have to reduce your overall income or change the types of investments that are generating taxable income.

Consider the following scenarios for two married couples (filing jointly), both of whom have a \$67,000 annual income. Each couple receives the same income from interest (CDs), dividends (stocks), tax-free bond interest, and IRAs. The only difference is that Couple 1 has taxable income from a traditional IRA and Couple 2 has tax-free income from a Roth IRA.

For Couple 1, all income from these sources is included in the calculation of combined income to determine the taxability of Social Security benefits. Because they are over the \$44,000 income threshold for joint filers, they could owe taxes on up to 85% of their Social Security benefits.

For Couple 2, however, the Roth IRA income is excluded from the combined income formula. Thus, their combined income is only \$31,000, which is below the 50% threshold for taxing benefits. As a result, their Social Security benefits will not be taxed.

	<b>Couple 1 (Traditional IRA)</b>	<b>Couple 2 (Roth IRA)</b>
Annual income:		
Interest income (CDs)	\$ 5,000	\$ 5,000
Dividend income (stocks)	\$10,000	\$10,000
Tax-free bond interest income	\$ 5,000	\$ 5,000
IRA income	\$25,000	\$25,000
Social Security benefit	\$22,000*	\$22,000*
Total annual income	\$67,000	\$67,000
“Combined income” for purposes of determining tax on benefits	<b>\$56,000</b>	<b>\$31,000</b>
Taxability of Social Security benefits	<b>85%**</b>	<b>0%</b>

\*Only \$11,000 (half of their Social Security benefits) is used in the combined income formula for both couples.

\*\*While up to 85% could be taxable, about 74% is taxable here.

These hypothetical examples are used for illustrative purposes only. Actual results will vary.

**Greater flexibility in planning income =  
larger importance of tax factors**



Interest paid on municipal bonds issued by your state or local government is typically free of federal income tax. If a bond was issued by a municipality outside the state in which you reside, the interest could be subject to state and local income taxes. If you sell a municipal bond at a profit, you could also incur capital gains taxes.

The principal value of bonds may fluctuate with market conditions. Bonds redeemed prior to maturity may be worth more or less than their original cost. Some municipal bond interest could be subject to the federal alternative minimum tax.



## How a Higher Income Affects Medicare Premiums

Not only could a higher income affect the taxability of your Social Security benefits, but it can also impact Medicare premiums.

Each year, Medicare uses the modified adjusted gross income reported on your tax return from *two years earlier*. That means 2026 Medicare premiums are based on MAGI reported on 2024 tax returns, and 2027 premiums will be based on MAGI reported on 2025 tax returns.

If your income rises significantly in one year — perhaps from the sale of appreciated assets or a Roth conversion — it could increase your Medicare premiums two years later.

### Monthly Medicare Premiums for 2026

Part A monthly premium for those who pay a premium*	\$311 or \$565
Part A deductible	\$1,736 for each benefit period
Part B monthly premium <b>Single filers with MAGI of \$109,000 or less</b> <b>Joint filers with MAGI of \$218,000 or less</b>	\$202.90 (standard premium) (those subject to hold harmless provision may pay less)
Part B monthly premium for higher-income beneficiaries**	\$284.10 to \$689.90
Part B annual deductible	\$283

\*Part A premium affects people who paid insufficient or no Medicare taxes while working.

\*\*Part B premiums for single filers with MAGIs above \$109,000; and Part B premiums for married couples filing jointly with MAGIs above \$218,000.

Source: Centers for Medicare & Medicaid Services, 2025

Original Medicare Part A hospital insurance is premium-free for most people, but deductibles and coinsurance apply to some services.

Original Medicare Part B medical insurance, which helps pay for physician services and outpatient care, has monthly premiums ranging from \$202.90 to \$689.90 in 2026. Each qualifying spouse is subject to monthly premiums and the annual deductible; after that, beneficiaries pay 20% of the Medicare-approved amount for most services — and there is no out-of-pocket maximum. Out-of-pocket costs may include deductibles, copays, and coinsurance. Costs vary depending on the coverage chosen and the medical services used.

Private plans offering Medicare Advantage Part C, Medicare Part D prescription drug coverage, and Medicare Supplement Insurance (Medigap) have different premiums, deductibles, copays, and coinsurance payments, which vary by plan.

For more information about Medicare benefits, costs, and eligibility, visit [medicare.gov](https://www.medicare.gov).

## Health Savings Account (HSA)

A health savings account (HSA) is a tax-advantaged account that enables you to save money to cover health-care and medical costs that your insurance doesn't pay. The funds contributed are made with pre-tax dollars if you contribute via payroll deduction or are tax deductible if you make them yourself using after-tax dollars. (HSA contributions and earnings may or may not be subject to state taxes.)

An HSA differs from an employer's flexible savings account (FSA) in several ways:

- **HSAs have higher contribution limits — up to \$4,400 if you have self-only medical coverage or up to \$8,750 for family coverage in 2026.**
- **Any unused HSA balances roll over from year to year and keep accumulating tax deferred.**
- **You keep the HSA account if you change jobs.**
- **Withdrawals used to pay qualified medical expenses are tax-free.**

You can establish and contribute to an HSA only if you are enrolled in a high-deductible health plan (HDHP), which offers “catastrophic” health coverage and pays benefits only after you've satisfied a high annual deductible. Typically, you will pay much lower premiums with an HDHP than you would with a traditional health plan such as an HMO or PPO.

Though an HSA is intended to pay current medical and related expenses, you don't have to seek reimbursement right away. By not tapping your HSA, the money will accumulate over time, and once you build up a minimum cash balance, you may be able to invest the funds to pursue growth. You can even hold your HSA dollars until retirement and then reimburse yourself for all the medical expenses you paid over the years with tax-free HSA distributions; be sure to keep receipts for medical expenses you incur.

If HSA withdrawals are not used to pay qualified medical expenses, they are subject to ordinary income tax and a 20% penalty. When you reach age 65, you can withdraw money from your HSA for any purpose without penalty; such a withdrawal could be subject to income tax but not the 20% penalty.

Once you are enrolled in Medicare, you can no longer contribute to an HSA, but you can use tax-free distributions to pay Medicare premiums — Parts A, B, D, and/or Medicare Advantage (Part C), but not Medicare Supplement Insurance. Because Part B premiums are typically deducted from Social Security benefits, this is usually done by reimbursing yourself for the premiums.

## Flexible Spending Account

A company-sponsored FSA enables you to set aside pre-tax dollars to pay medical and dependent-care expenses incurred during the year. The money you contribute is not subject to federal income tax or Social Security tax, nor generally to state and local income taxes.

A health FSA can be used to pay medical expenses not covered by insurance. A dependent-care FSA can be used to pay qualified, out-of-pocket child-care costs or adult dependent day-care costs.

**Downside:** You typically must spend everything in your FSA during the calendar year or risk losing the money.



## When Selling Appreciated Assets

To keep your income from crossing critical thresholds, consider timing asset sales to split gains over two or more tax years.

If you make charitable donations with appreciated assets such as shares of stock instead of cash, you could avoid capital gains taxes and take a deduction that might lower your taxable income.

Married couples who sell a principal residence (one they have lived in for at least two of the last five years) can typically exclude up to \$500,000 in gains from taxable income.

## Qualified Charitable Distribution (QCD)

If you're no longer itemizing deductions on your tax returns, you're likely not getting the full tax benefit from your charitable gifts. In that case, you might consider a qualified charitable distribution. A QCD offers a tax-efficient way to manage required minimum distributions from a traditional IRA while benefiting an eligible public charity.

- **A QCD can be made from a traditional IRA to an eligible charity.**
- **You must be age 70½ or older.**
- **A QCD counts toward your annual RMD and can keep your adjusted gross income within a desired range.**
- **QCD exclusion is limited to \$111,000 in 2026.**

Using a QCD, you can still contribute to charity and receive a tax benefit, whether you itemize or not. The charity you choose must qualify as a 501(c)(3) organization.

To make a QCD, you must be age 70½ or older. If you're married, your spouse can also make up to a \$111,000 QCD (in 2026) from his or her own IRA(s) at age 70½ or older. The recently passed SECURE Act and SECURE 2.0 did not change this age, even though they did increase the starting age for required minimum distributions.

In effect, when you're subject to RMDs, you can steer your RMD to charity and exclude the distribution from your taxable income. For example, if your RMD amount for 2026 is \$25,000, you can still give more to charity through a QCD but cannot exceed the \$111,000 annual limit. This strategy may keep your adjusted gross income within a desired range, which might help you avoid higher taxes on your Social Security benefits or paying higher Medicare premiums.

A QCD must be an otherwise taxable distribution from your IRA. You cannot retroactively classify an RMD as a QCD, so the timing of QCDs and RMDs should be carefully coordinated. If you do itemize deductions on Schedule A, you cannot deduct a QCD as a charitable contribution.

The 2022 SECURE 2.0 legislation also allows for a one-time election to use a QCD (up to \$55,000 in 2026) to fund a charitable remainder trust or charitable gift annuity.



## Qualified Longevity Annuity Contract (QLAC)

Another way to reduce RMDs — while reducing the taxes you pay and guaranteeing a larger stream of income when you may need it in your 80s or 90s — is to place some of your retirement funds in a qualified longevity annuity contract.

A QLAC is a specific type of deferred income annuity purchased in a traditional IRA or a qualified employer-sponsored retirement plan such as a 401(k).

- **Value of QLAC is excluded from retirement account balance used to determine RMDs.**
- **Over your lifetime, you can use up to \$210,000 (in 2026) of your account funds to purchase a QLAC.**
- **Income payments are fully taxable.**

With a QLAC, guaranteed lifelong income payments are delayed until you reach a specific age (up to age 85). Because the annuity income is deferred, the payouts are typically much higher than they would be if the annuity income was received immediately.

The funds used to purchase a QLAC are not considered part of your required minimum distributions. This means taxes on your RMDs will generally be lower because the retirement account balance used to determine RMDs is reduced by the value of the QLAC.

QLAC payments can begin any time after age 70½, but no later than the first day of the month following your 85th birthday. The rules also allow for the continuation of income payments throughout the lifetime of a beneficiary (such as a surviving spouse) and/or the return of premiums (minus payouts) as a death benefit. However, these options will either cost more upfront or reduce income payments later in life. Without the optional death benefit, insurers may keep the premiums paid if you die before (or after) the payout start date (unless the annuity offers a return-of-premium feature or it was possible to structure payouts to continue throughout the lifetime of a second individual).

Generally, annuity contracts have fees and expenses, limitations, exclusions, holding periods, termination provisions, and terms for keeping the annuity in force. Surrender charges may be assessed during the early years of the contract if the annuity is surrendered. Withdrawals prior to age 59½ may be subject to a 10% federal income tax penalty.

Unlike nonqualified annuities purchased outside of a retirement plan, QLACs do not allow cash-out provisions; the money invested is no longer a liquid asset. QLAC payments are taxable as ordinary income, whereas only the earnings portion of nonqualified annuities is taxable. Any annuity guarantees are contingent on the financial strength and claims-paying ability of the issuing insurance company.

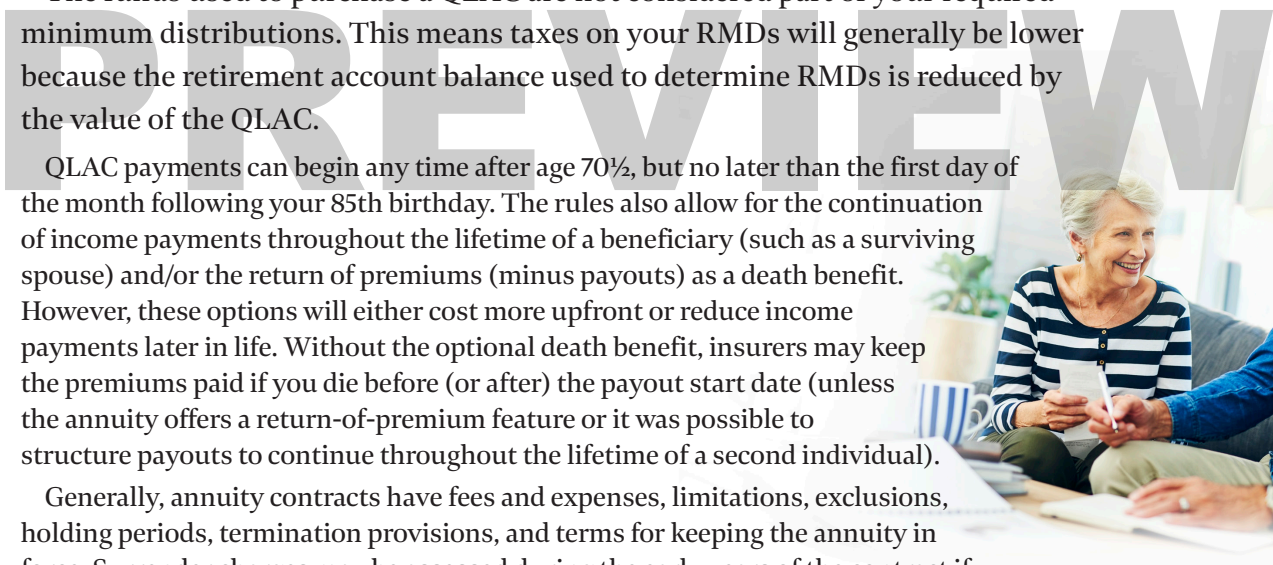
**The tax code and recent tax laws are complex and include many other changes that could affect you.**

**It would be wise to consult a tax professional before taking any specific action regarding your taxes.**

In 1789, founding father Benjamin Franklin wrote what is considered to be his last great quote:

“But, in this world, nothing is certain except death and taxes.”

Source:  
Constitution Daily



## What to Bring

Please bring the following documents to your complimentary, no-obligation consultation:

1. \_\_\_\_\_

2. \_\_\_\_\_

3. \_\_\_\_\_

4. \_\_\_\_\_

5. \_\_\_\_\_

# PREVIEW

Your consultation is scheduled for:

\_\_\_\_\_

Date

Time

