

Understanding Taxes In Retirement

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When we think about financial health, taxes often get pushed to the background. But for those nearing retirement, tax planning is one of the most impactful areas to focus on. The decisions you make in your 50s and 60s can shape how much of your nest egg you actually get to spend.

Here's why it matters—and how you can take action today.

Understanding the Tax Landscape in Retirement

Retirement doesn't mean your tax bill disappears. In fact, for many, taxes become even more complicated. Here are some of the biggest tax issues retirees face:

• **Withdrawals from Traditional IRAs and 401(k)s** are taxed as ordinary income. • **Social Security Benefits** can be up to 85% taxable, depending on your income.

• **Required Minimum Distributions (RMDs)** start at age 73 and can push you into a higher tax bracket.

• **Capital Gains Taxes** on investments may apply—especially if sold within a year of buying.

• **State Taxes** vary widely; some states tax retirement income, others don't. • **Future Tax Rates** could rise due to national debt and fiscal policy. • **Estate Taxes** and the SECURE Act changes can increase taxes for your heirs.

Each of these tax challenges affects how much of your savings you actually get to keep. The key is to plan now while you still have time to make meaningful adjustments.

7 Tax-Smart Moves You Can Start Now

The key to tax strategy is acting early. These steps are especially valuable if you're 5–10 years from retirement:

1. Estimate Your Future Tax Brackets

Use a basic retirement income projection to see where your income will come from—and how it will be taxed. This helps you spot opportunities to shift income into lower-tax years. You can do this with a financial advisor or even a spreadsheet. Estimate income from pensions, Social Security, RMDs, and investments.

2. Start Roth Conversions Early

If you're in a low tax bracket now, consider converting some traditional IRA funds to Roth. You'll pay tax today, but future withdrawals are tax-free. Start small and spread conversions

over several years. This is especially effective in the years between retirement and when RMDs begin at age 73.

3. Use Tax Diversification

Try to build a mix of account types: tax-deferred (IRA), taxable (brokerage), and tax-free (Roth). This gives you flexibility in how you draw income later—and more control over your tax bracket. You can decide which "bucket" to pull from based on your annual tax picture.

4. Coordinate Social Security and Withdrawals

Delaying Social Security while drawing from your IRA or brokerage account can reduce your lifetime taxes and increase your monthly benefit. Think of it as buying time to convert or withdraw at lower rates. This can be one of the most effective tools for managing your taxable income in early retirement.

5. Harvest Tax Losses Annually

If you have taxable investments, review your portfolio each year for losses. Selling losers to offset gains (or even income) is a smart way to reduce your tax bill. Be careful of the wash sale rule, which disallows the deduction if you repurchase the same investment within 30 days.

6. Relocate Strategically

If you're considering a move in retirement, look at state tax laws. Some states, like Florida and Texas, don't tax income at all. Others tax retirement income heavily. If you're open to relocating, moving to a tax-friendly state can stretch your retirement dollars significantly.

7. Get Help Mapping Your Strategy

Work with a financial planner or tax advisor who can run "what if" scenarios. A good strategy isn't just about this year—it's about managing your lifetime tax bill. Advisors can also help you avoid costly mistakes and stay updated on tax law changes.

Case Study: Why Tax Diversification Matters

Let's compare two retirees, both age 73, with \$500,000 saved for retirement. The only difference? One has all their savings in a traditional IRA, while the other has \$250,000 in a traditional IRA and \$250,000 in a Roth IRA.

Scenario 1: All in Traditional IRA (\$500,000)

- RMD at age 73 (approx. 3.77%): ~\$18,850
- That entire withdrawal is taxed as ordinary income.
- This could bump the retiree into a higher tax bracket, increase the taxable portion of Social Security, and possibly raise Medicare premiums.
- If they need extra income, any additional withdrawal is fully taxable, potentially creating a snowball effect.

Scenario 2: Split Between Traditional and Roth (\$250K each)

- RMD on \$250,000: ~\$9,425
- Roth IRA has no RMDs and withdrawals are tax-free.

- This retiree stays in a lower tax bracket, keeps more Social Security income tax-free, and avoids IRMAA penalties on Medicare.
- They can supplement income from the Roth without increasing their taxable income.

Even though both saved the same total amount, the one with tax diversification has far more control over their taxable income—and likely keeps more money in their pocket.

How to Get Started Today

If you're not sure where to begin, here are a few easy steps:

1. **Download Your Social Security Statement** from SSA.gov to see your projected benefit and income history.
2. **Review Your Account Types** – Are most of your assets in traditional pre-tax accounts? Consider building up Roth or brokerage savings.
3. **Run a Retirement Income Projection** – Many online calculators can help you see future income, but a financial advisor can run more detailed models.
4. **Look at Your 2025 Tax Return** – Where did your income land? Could you do a small Roth conversion this year without jumping brackets?
5. **Talk to a Pro** – A Certified Financial Planner or tax professional can help you develop a strategy tailored to your unique situation.

A Healthier Financial Future

Tax strategy isn't about chasing loopholes or gaming the system. It's about thoughtful planning, consistent action, and understanding how each financial decision today impacts your future income.

With a bit of planning and the right support, you can keep more of your hard-earned money—and feel more confident about your retirement.

We're Here to Help

At [Intermountain Wealth Management](#), we specialize in helping people near retirement make smart, forward-thinking tax decisions. If you're ready to see how your tax strategy could improve your financial health, let's talk.

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