Strategic Tax Consulting

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NEW CONCEPT BENEFIT GROUP
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A progressive tax system

The United States federal tax system is progressive, which means that people who have higher incomes pay a higher tax rate on each additional dollar earned.

Most income can be grouped into two broad categories: ordinary income and capital gains. Each category receives its own income tax treatment.

For retirees, ordinary income most commonly includes earned income, taxable interest, rents, short-term capital gains, pension payments, and withdrawals from IRA accounts. The taxable portion of Social Security benefits is also treated as ordinary income.

Long-term capital gains and qualified dividends receive favorable tax treatment compared to ordinary income, with brackets considerably lower than those for ordinary income. These brackets, however, are tied to the amount of ordinary income a taxpayer has. So if a taxpayer had enough ordinary income to fully reach the 22% ordinary tax bracket, the first dollar of long-term capital gain would be taxed at 15%.

Married Filing Jointly, Long-Term Capital Gains Rates - 2019

Taxable Income	Capital Gains Brackets
$0 - $78,750	0%
$78,751 - $488,850	15%
$488,851+	20%

Married Filing Jointly, Tax Brackets - 2019

Taxable Income	Ordinary Income Brackets
0 - $19,400	10%
$19,401 - $78,950	12%
$78,951 - $168,400	22%
$168,401 - $321,450	24%
$321,451 - $408,200	32%
$408,201 - $612,350	35%
$612,351 +	37%

The need for an overall plan

Although identifying tax opportunities on an annual basis is a good first step, strategic decisions regarding tax should be made in the context of an overall financial plan (that includes reasonable year-by-year tax projections). An overall plan will help guide decisions that may actually include choosing to pay some additional tax in the near term in order to avoid considerably more in the future.

For example, if you are likely to have funds left over at the end of your lifetime and your children are high income earners, leaving life insurance or Roth IRA assets would likely be more beneficial than leaving traditional IRA assets. If your beneficiaries are charitable organizations, then leaving IRA assets would be preferable as neither you nor the qualified charity would pay federal income tax on these assets.

Another example is Required Minimum Distributions (RMDs) from IRA accounts. RMDs must begin at age 70 and 1/2. If you have significant savings in IRA or other pre-tax retirement accounts, estimating your eventual RMD may help you identify the potential for especially large tax bills in the future that may be reduced by taking some action today.

If you are likely to spend the majority of your savings during your lifetime, tax-efficiency should be viewed as secondary to ensuring you are able to meet your needs in a variety of personal circumstances, such as an early death of a family member, high health care expenses, or a poor investment market early in your retirement. While tax planning may play a role in improving your ability to deal with these situations, it likely will not be the primary means for doing so.

These are only a few of the considerations addressed by a comprehensive plan. Talk to an advisor today to determine whether you could benefit from an overall financial plan.

This brochure is intended solely for general educational purposes. It is not intended for the purpose of providing specific investment advice to any particular recipient. Further, it is important to understand that only an Enrolled Agent, CPA or Attorney is able to provide tax advice. Although the financial planning process may provide a useful starting point for tax considerations, a professional licensed to represent clients in front of the IRS should be consulted prior to implementing any of the suggestions provided by your financial advisor.