## RETIRED OR RETIRING SOON?

# WILL THE "SHADOW TAX SYSTEM" IN RETIREMENT MAKE YOU OVER PAY INCOME TAXES?

THE SHOCKING TRUTH OF HOW THE SHADOW TAX SYSTEM IN RETIREMENT CAN FORCE YOU TO PAY AN EFFECTIVE MARGINAL TAX RATE UP TO 416% HIGHER!

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# Retired or Retiring Soon? The Shocking Truth of How the "Shadow Tax System" in Retirement Can Force You to Pay Up to 49.95% in Taxes in the New 12% Tax Bracket

**The Shadow Retirement Tax System**

Income taxes…nobody really likes them…do you?

During your work life taxes are complex, confusing and maybe even scary.

When you get to retirement, they have to get easier, right?

Unfortunately, for those that saved for retirement they become even more complex.

Did you know, once you get to retirement there's a whole new **"Shadow Tax System"** you have to worry about? (The focus here is on Federal Income Taxes)

Tax rates are dependent upon what type of incomes you are using, how much from each type of income you are taking and how those interact with each other within their different taxing rates and scenarios.

Is it any surprise most retirees have no idea how different the tax system in retirement is from what they had experienced their working lives?

The first time retirees typically find out about how complex the taxes are in retirement is when they do their taxes for the first time after they retire.

You'd think the financial planning community would do something about it, right?

Sadly, that doesn't happen…as a whole…the industry runs scared…afraid to do anything that might even be remotely considered as giving tax advice.

Then you'd think tax pros would be handling it, from all appearances, that doesn't seem to be the case either. It appears most are tax preparers and not tax planners.

Lucky for you, you requested this Free Guide!

**Tax Advice vs. Strategic Tax Consulting**

You should seek tax advice to ensure in the event of your actions, with respect to your tax returns, create tax penalties, you may pursue relief from the penalties due to your reliance on tax advice. This is typically received thru CPAs, Enrolled Agents and Tax Attorneys…Not Financial Pros.

While KJ Financial and Kurt Jackson DO NOT GIVE TAX ADVICE, we utilize Strategic Tax Consulting as an integral a part of our Retirement Lifestyle Planning Process.

As a Financial Professional who is acting in a client's best interest, how can you be acting in a client's best interest if you are afraid to talk about the tax implications of different retirement income strategies?

Thru Strategic Tax Consulting and the use of our unique software, we are better able to understand, evaluate and explain the consequences of various income and withdrawal strategies.

The Strategic Tax Consultation process is able to equip you with the questions about strategies for you to discuss with your tax pro before implementing.

The goal of Strategic Tax Consulting is to make sure you're retirement income plan is a comprehensive one that includes tax optimization for your particular situation…

It is of the utmost importance you consult with a qualified tax professional before you attempt to implement any of the ideas you find in this guide, or any of our videos or if you decide to have us to do a complimentary Tax Map for you.

It is key you remember that. Fair enough?

**The Elephant in the Room…The Tax SNOWBALL**

The Elephant in the room is figuring out how the interaction between different types of retirement income streams impact your taxes.

Failure to fully understand how different retirement income streams work together in impacting your tax bill will cause your tax bill to SNOWBALL into a bigger and bigger problem.

Well then, how does one eat an elephant?

It's easy…one bite at a time!

No need to for you to worry…we'll show you how easily it can be done.

**Certain Combinations of Retirement Income Can Drive Your 12% Marginal Tax Rate Up 416% to a 49.95% Effective Marginal Rate**

You're probably thinking, "Kurt, what in the world does that even mean?"

Let's see if we can't put this into bite size pieces for you.

When you were working, under the new 2018 tax law, if you're married filing jointly you would have paid taxes at a 12% marginal tax rate on your income from $19,051 to $77,400.

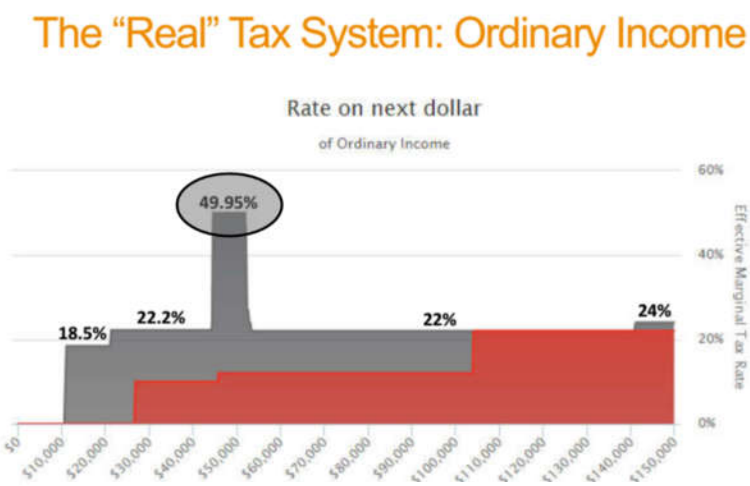
Married Filing Jointly Brackets - 2018

| Taxable Income | Ordinary Income Brackets |
|---|---|
| 0 - $19,050 | 10% of taxable income |
| $19,051 - $77,400 | $1,905 + 12% over $19,050 |
| $77,401 - $165,000 | $8,907 + 22% over $77,400 |
| $165,001 - $315,000 | $28,179 + 24% over $165,000 |
| $315,001 - $400,000 | $64,179 + 32% over $315,000 |
| $400,001 - $600,000 | $91,379 + 35% over $400,000 |
| $600,001 + | $161,379 + 37% over $600,000 |

Source: Tax Clarity Exhibit 1

In retirement, depending on your mix of retirement income, after a certain point you could be paying 49.95 cents in taxes for every additional dollar you take until you get out of that 49.95% effective marginal rate.

The red areas show today’s new marginal tax rates while the gray areas in Exhibit 2 show you the shadow tax system…




Source: Tax Clarity Exhibit 2

We also refer to the gray areas as the “Effective Marginal Rate” or (EMR). The EMR is the rate you’re paying on every additional dollar you add to your income. We’ll be using EMR throughout this guide.

That means, in Exhibit 2, for the next dollar past $10,000 in ordinary income, you’d pay $18.5 cents in taxes per dollar or an EMR of 18.5%...notice that bracket doesn’t even exist on the brackets shown in Exhibit 1. They go from 10% to 12% to 22%, etc.

**What are these Combinations of Retirement Income You Speak of Kurt?**

Typically retirement income can come from Ordinary Income, (including…IRA withdrawals, Pensions, rents, part-time or full-time work income, short term capital gains, etc.), next we have long term capital gains, non-taxable interest (Municipal Bonds), Social Security, tax-free Roth income, and a couple more we won’t get into here.

The three key sources of income here are Ordinary Income, Long-Term Capital Gains and of course Social Security.

While you’re working, most of the time you’re dealing with Ordinary Income…and maybe a short or long term gain occasionally.

Under certain circumstances, by themselves and in certain quantities…income from ordinary income, income from Long-Term Capital Gains…income from Social Security could be tax-free…yes TAX-FREE! Wouldn’t that be nice?

There are different rules for different types of income and how they are taxed… remember, we said it was complex and confusing!

This isn't the place to go into all the details of the "how," plus you'd likely fall sound asleep minutes after starting to read that type of info.

Let's look at a couple hypothetical examples.

**How Can Two $70,000 Incomes Be Treated So Differently Tax Wise?**

Assume you have a couple both age 65 or older married, filing jointly.

***Scenario #1***

$40,000 in Social Security Income

$15,000 in IRA Withdrawals

$15,000 in Long Term Capital Gains

$70,000 Total Income

$ 0 Total Federal Income Taxes

***Scenario #2***

$20,000 in Social Security Income

$50,000 in IRA Withdrawals

$ 0 in Long Term Capital Gains

$70,000 Total Income

$ 4,470 Total Federal Income Taxes

Here are two $70,000 incomes…one with much more Social Security income, some from and IRA and some from long-term capital gains pays NO Federal Income Taxes.

Next you have considerably less Social Security (they took it earlier, maybe at age 62) and a lot more from their IRAs and their tax bill is $4,470!

Crazy isn't it?

That is extra taxes you would pay each and every year for the same income…OUCH!

Wouldn't you need to take out even more income to pay the taxes in order to have the same money to spend?

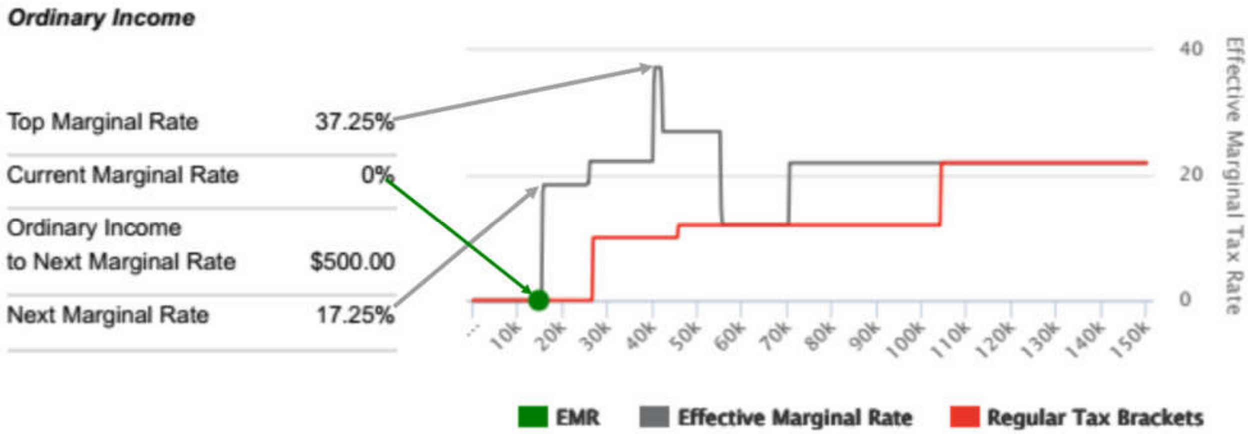
Wouldn't that also mean paying a little more in taxes?

Couldn't that also deplete your retirement savings sooner?

Do you want ANY of that to be the case in your retirement?

*Did you even know this was possible?*

Scenario #1…The red line shows traditional tax rates and the gray lines signify the "Shadow Tax System" that exists due to the ways different income streams are taxed. Since the IRA withdrawals were only $15,000 they weren't taxed…as shown by the green dot.




Source: Tax Clarity Exhibit 3

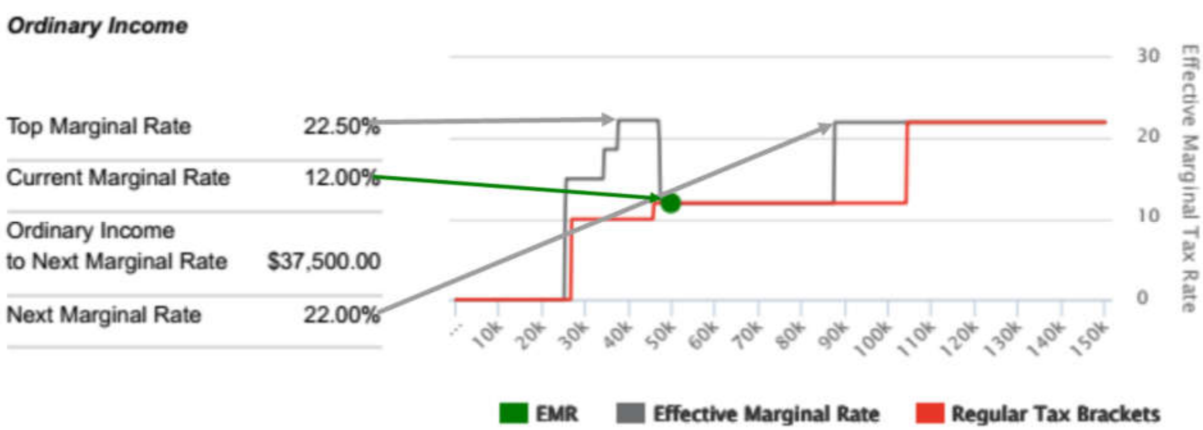
If you added just another $275 of Ordinary income to that IRA income, it would have been taxed at a 17.25% rate and you would have paid $1 in taxes…

The highest EMR in this hypothetical example is 37.25%.

Why is the max EMR less than the 49.95% discussed earlier? Great question!

Because Social Security is taxed in a very unique manner and with the higher amount of Social Security it kept the max EMR lower…can you see some additional benefits of delaying Social Security benefits until maybe age 70 in order to get more income from this uniquely taxed form of retirement income?

In Scenario #2…The current marginal rate is 12%, because they already went through the first part of the Shadow Tax System and paid EMRs as high as 22.5%, (it is even lower because we only utilized two sources of retirement income) notice they will jump up to a 22% EMR if they had another $37,500 in ordinary income.




Source: Tax Clarity Exhibit 4

Don't panic…you're not expected to fully get all of this!

The real question to be asked is…are you seeing why Strategic Tax Consulting is such a big deal?

This is merely a hypothetical example of how two different sets of income in retirement can create significantly different federal income tax consequences.

All you need to really take away from all of this is the way you structure your income in retirement can have significant tax implications and you'll probably need some help in deciding the best way to take your retirement income.

Now that you've seen a couple examples, do you think it would be important to know how your mix of retirement income is impacted to find your Tax Alpha?

**Okay Kurt, How Do I Achieve "Tax Alpha"…Wait, What is "Tax Alpha?"**

The concept of "Tax Alpha" means optimizing your taxes in retirement. Not necessarily finding the lowest tax in any given year, but minimizing the total tax bill you and your heirs may pay throughout your life and if you leave qualified money to your heirs, throughout their lifetime.

Does that make sense?

"We Help You Beat the "TAR" Out of the IRS!" TAR = Tax Alpha in Retirement.

Ever notice when you put "THE IRS" together it spells "THEIRS?" Not on our watch!!!

In the search for Tax Alpha, we must look past the old rules of thumb that told us to take Social Security early, and/or to use Non-Qualified Money first, and/or only take IRA income before age 70½ if absolutely necessary and/or use the Roth only if absolutely necessary.

Knowing what we now know…we need to operate under NEW RULES…

The new rules dictate we must now consider delaying Social Security, and/or use IRA to bridge that income gap if need be, and/or then use Non-Qualified if needed and/or use Roth last if needed, and/or once that's been properly handled focus on whether Roth Conversions make sense, and/or use Non-Qualified first, looking at the tax map and not focusing on traditional marginal tax brackets…as you can see, those have been pretty much rendered moot, and/or focus on blended withdrawals and/or attach any Net Unrealized Appreciation in company stock in filling any 0% capital gains bucket if available.

What a couple horribly written paragraphs…right?

Kind of confusing, weren't they?

We did that purposely to share how complex Strategic Tax Consulting in retirement can be, especially when you have money and income from different sources…does that make sense?

You're not expected to fully get all of this, what you need to take away from this, is things MUST be done differently if optimizing the tax situation in retirement is important to you. **Differently than just about EVERY Traditional Retirement plan would tell you.**

It better be important to you…every dollar you avoid in taxes is YOURS!

Yours to spend, or, every dollar you avoid in taxes is a dollar you didn't have to create from your money and possibly depleting your retirement accounts sooner.

Is this the first you're ever hearing about all of this?

If that's the case, would it make sense to rethink your choice of financial advisor and maybe even your tax pro?

Should you get your own Customized Tax Map done for you so you KNOW for sure how to structure most efficient ways to create your retirement income?

Why you should have a Custom Tax Map done for your unique situation…

- You haven't taken Social Security yet, or
- You're not yet in retirement and have money for retirement saved ANYWHERE, or
- You're in retirement and paying taxes on your Social Security income, or
- You're in retirement and have any earned income from a job, part or full time, or
- You're in retirement, easily living off what you have as income, but have a lot of money in 401ks or IRAs that you will likely not need to live off after age 70½…also known as Excess RMDs (Required Minimum Distributions!), or
- You're in retirement and your Federal Income Taxes are ZERO now…are there future taxes we could address now, or
- You're in retirement, you pay ZERO or very little Federal Income Taxes and have 401k or IRA money…would taking some distributions at a zero or very low rate now make sense, or
- You're in retirement holding appreciated assets like stocks, mutual funds, ETFs, or real estate and your tax rate is zero or low…would it make sense to find out how much of a gain you could take at zero or a very low tax rate NOW, or
- You're in retirement and you want to know how much money you can take from other sources of income on top of your Social Security income, or
- You're in retirement, have a high income and a lot of money in IRA, 401k, property, equities…would you like to be able to potentially pull out millions of dollars over your entire retirement and pay less than a 20% tax rate, or

- You're in retirement and want to know the most tax efficient way to take income?

How many of these do you fit into?

If even one of these begins to describe you, it is very important to have a Custom Tax Map done for you.

If more than one of these describes you it is a NO-BRAINER to have a Custom Tax Map done for you!

We have some Great News for You!

Since you requested our FREE Guide and we know you've read this far…(didn't know we could read minds did you?)

IF you'll contact us in the next 10 days to schedule a Strategic Tax Consultation Session…we will meet with you either virtually or via phone and prepare a Custom Tax Map for you!

It's pretty easy to do! All we need from you is a copy of your most recently filed tax form 1040 and if you itemize a copy of your schedule A.

You can email that info to us at kurt@KJFinancialOnline.com or even take a clear picture of each page and text it to me at 816.582.5532…now don't be concerned with your sharing your financial information with us. You are covered by the Right to Financial Privacy Act where we can't disclose any of your financial information without your written permission.

Our Tax Map software allows us to use the new tax law so you'll have a really good picture of what your taxes will look like under the new tax law.

The clock is ticking for our FREE OFFER…we normally charge $500 to do a Custom Tax Map…you can get this done for FREE if you'll contact us to set up an appointment in the next 10 days…we don't have to do the appointment in that 10 days, but we do need to get an appointment scheduled.

You can do that by calling Kurt on his direct line at 816.582.5532 or email kurt@KJFinancialOnline.com.

Let's work together with your tax pro to make sure you are paying the least amount of taxes you possibly can in retirement!