



A short Webinar Series Presented By

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1) Why do we defer taxes?

- a. You can never avoid paying taxes on your retirement savings. So why do we even bother deferring taxes and not just pay them now? To understand why we do this we must first understand a little bit about how taxes work. In the U.S. we have marginal taxes rates, so the more money you make the higher your taxes become. However, just because you fall into a higher tax bracket does not mean that all your money is being taxed at that rate. For example, if you are married filing jointly the first \$24,800 you make does not get taxed at all due to the standard deduction. The next \$19,750 dollars you make after that gets taxed at a 10% rate, while the next \$60,499 gets taxed at a 12% rate. The rates continue to increase as your income increases. So, the last dollars you make are taxed at the highest rate.
- b. If you save your money in your 401(k) through the pre-tax method, you decrease the amount of money that is being taxed at that higher bracket. For example, a couple that makes \$150,000 falls into the 22% tax bracket. If they save \$20,000 into their pre-tax 401(k), they avoid having to pay the 22% rate on the top dollars, saving them \$4,400 in taxes a year. Then in retirement some of those dollars will not be taxed due to the standard deduction and some of those dollars will be taxed at lower rates assuming their income has declined. Deferring when you pay your taxes could potentially save you thousands of dollars over your lifetime.

2) What about Roth savings?

- a. Saving via the Roth method is essentially the opposite to the pre-tax method. With the Roth you pay taxes on your income now but then you get tax free compounded growth and tax-free income when you pull the money out in retirement. However, with a Roth there are a few things to keep in mind. Since you do not get the tax benefit up front you feel the full effect of the money you save in your pocket. This makes it more difficult to save the same amount as you would under the pre-tax method. If you cannot save as much as you would under the pre-tax method, you could end up with a smaller amount at retirement. Which means your money probably may not last quite as long during retirement.
- b. With that in mind, when does it make sense to save in your Roth? If you are currently in a low tax bracket, whether it is because you are just starting your career out, you are experiencing a down income year, or you expect to make some significant jumps in income in the future, saving in the Roth makes a lot of sense. Also, since we are in one of the lowest tax environments in recent history and if you think that we will see increases to our tax rates in the years ahead, the Roth can be a fantastic option. Essentially the Roth will allow you to lock in low tax rates now and avoid

paying higher rates later on. The Roth option also has significant benefits when it comes to estate planning and passing money onto your loved ones. There are also income tax strategies in the case in which you have both Roth and pre-tax dollars saved.

3) New York State Tax Arbitrage

- a. In New York State the first \$20,000 of income withdrawn from a qualified account is exempt from state taxes for individuals age 59.5 or older. This opens an opportunity for us to take advantage of a tax deduction. For example, if we contributed \$7,000 to a traditional IRA, we can take a \$7,000 Federal tax deduction and a \$7,000 NYS tax deduction. If you then withdrew the \$7,000 from your IRA you would recognize \$7,000 of Federal income, which would net out the Federal tax deduction. But you would not recognize any NYS income, thus allowing you to keep the NYS tax deduction and save yourself a few hundred dollars.
- b. There are some parameters to be able to do this. First, you need to be over age 59.5 to qualify for the NYS tax exemption. Second, you need to have earned income to be able to fund the IRA. And finally, you need to fall under the income limitation to be able to fund the IRA.