



# STRATEGIZING TAXES TO IMPROVE YOUR FUTURE WELL-BEING

A WEBINAR FOR EMPLOYEES FROM YOUR  
EMPLOYEE ASSISTANCE PROGRAM

January 12, 2022



Federal  
Occupational  
Health

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# OBJECTIVES

- Understand the basics of the U.S. income tax laws
- Determine potential changes in future tax laws
- Examine tax strategies that volatility creates
- Discover ways to integrate taxes in retirement

SECTION 1

# TAXES 101

# TAXABLE INCOME



- **Gross income:** Total earnings before taxes and deductions
  - Wages, salaries, interest payments, and tips, etc.

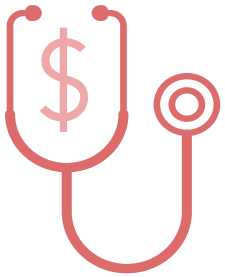
- **Deductions:** Reductions in taxable income
  - Expenses or losses that can be subtracted from gross income to lower the taxable amount

# STANDARD DEDUCTIONS

Every individual is entitled to a standard deduction OR itemized deductions, whichever is higher

Filing Status	2020 Tax Year	2021 Tax Year
Single	\$12,400	\$12,550
Married (filing jointly)	\$24,800	\$25,100
Married (filing separately)	\$12,400	\$12,550
Head of household	\$18,650	\$18,800

# ITEMIZED DEDUCTIONS



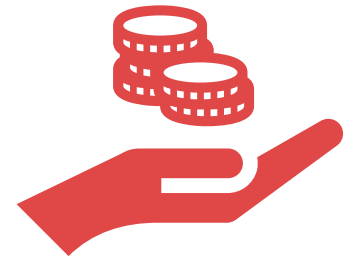
Medical expenses



Mortgage interest



State and local taxes  
(Up to \$10,000, including property/real estate taxes)



Charitable deductions

SECTION 2

# MARGINAL TAX BRACKETS



# CURRENT MARGINAL TAX BRACKETS

Filing Status	Taxable Income		Base Tax	Marginal Rate	
<b>Single</b>	\$0	To	\$9,875	\$0.00	10%
	\$9,876	To	\$40,125	\$987.50	12%
	\$40,126	To	\$85,525	\$4,617.50	22%
	\$85,526	To	\$163,300	\$14,605.50	24%
	\$163,301	To	\$207,350	\$33,271.50	32%
	\$207,351	To	\$518,400	\$47,367.50	35%
	\$518,401	Over	-	\$156,235.00	37%

Filing Status	Taxable Income		Base Tax	Marginal Rate	
<b>Married Filing Jointly</b>	\$0	To	\$19,750	\$0.00	10%
	\$19,751	To	\$80,250	\$1,975.00	12%
	\$80,251	To	\$171,050	\$9,235.00	22%
	\$171,051	To	\$326,600	\$29,211.00	24%
	\$326,601	To	\$414,700	\$66,543.00	32%
	\$414,701	To	\$622,050	\$94,735.00	35%
	\$622,051	Over	-	\$167,307.50	37%

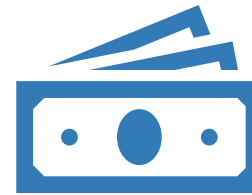
# TAX BRACKETS: MARGINAL VS. EFFECTIVE RATES



## Marginal rate

The rate at which your next dollar is taxed

(Refers to the highest tax bracket into which your income falls)



## Effective rate

The average rate at which your earned and unearned income are taxed

(Total tax paid divided by gross income)



When making long-term tax planning decisions it's important to **focus on the marginal rate, not the effective rate**, as it is the rate at which your next dollar is taxed

# EXAMPLE: MARGINAL VS. EFFECTIVE RATES



\$86,000 of taxable income puts a single individual's **marginal rate** in the 24% tax bracket

- Based on the table, the approximate total of taxes owed is \$14,600, which represents an **effective rate** of 14.6%

But let's say this individual also withdrew \$20,000 from their traditional IRA during the tax year

- Because the marginal rate is 24%, they would pay 24% tax on it, NOT 14.6%
- The total tax on the additional \$20,000 in income would be \$4,800, NOT \$2,920

# TAX CUTS AND JOBS ACT OF 2017

This law  
**temporarily**  
changed  
the tax code

Started in  
2018 and  
lasting  
until 2025



Marginal tax rates expanded significantly, leaving many people in their lowest marginal tax bracket ever

# 2017 VS. 2021 RATES: SINGLE

2017	Filing Status	Taxable Income		Base Tax	Marginal Rate
	<b>Single</b>	\$0	To \$9,275	\$0.00	10%
		\$9,276	To \$37,650	\$927.50	15%
		\$37,651	To \$91,150	\$5,183.75	25%
		\$91,151	To \$190,150	\$18,558.75	28%
		\$190,151	To \$413,350	\$46,278.75	33%
		\$413,351	To \$415,050	\$117,541.25	35%
		\$415,051	Over -	\$118,118.75	39.6%

2021	Filing Status	Taxable Income		Base Tax	Marginal Rate
	<b>Single</b>	\$0	To \$9,875	\$0.00	10%
		\$9,876	To \$40,125	\$987.50	12%
		\$40,126	To \$85,525	\$4,617.50	22%
		\$85,526	To \$163,300	\$14,605.50	24%
		\$163,301	To \$207,350	\$33,271.50	32%
		\$207,351	To \$518,400	\$47,367.50	35%
		\$518,401	Over -	\$156,235.00	37%

# 2017 VS. 2021 RATES: MARRIED

**2017**

Filing Status	Taxable Income			Base Tax	Marginal Rate
Married Filing Jointly	\$0	To	\$18,550	\$0.00	10%
	\$18,551	To	\$75,300	\$1,855.00	15%
	\$75,301	To	\$151,900	\$10,367.50	25%
	\$151,901	To	\$231,450	\$29,517.50	28%
	\$231,451	To	\$413,350	\$51,791.50	33%
	\$413,351	To	\$466,950	\$109,587.50	35%
	\$466,951	Over	-	\$127,962.50	39.6%

**2021**

Filing Status	Taxable Income			Base Tax	Marginal Rate
Married Filing Jointly	\$0	To	\$19,750	\$0.00	10%
	\$19,751	To	\$80,250	\$1,975.00	12%
	\$80,251	To	\$171,050	\$9,235.00	22%
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SECTION 3

# NON-QUALIFIED & QUALIFIED MONEY

# NON-QUALIFIED MONEY



**Examples:** Bank accounts, brokerage accounts, homes, rental properties

There are no special tax structures as determined by the IRS and is taxed at potentially different rates



## After tax

Investments are taxed whenever a distribution occurs (Growth is unrealized until the position is changed or distributed to account holder)

- The earnings on an investment are taxed at lower capital gains tax rates if held onto longer than one year



## Stepped-up basis

Upon death of account holder:

- Any unrealized growth is eliminated for tax purposes
- The inherited account holder's new basis is established



# QUALIFIED MONEY

Qualified money is any account that has a special tax structure on it as determined by the IRS

## Employer sponsored

TSP

401k

401A

403B

457

## Individually sponsored

IRA

# HOW MONEY IS QUALIFIED

One of two ways:

## Traditional

Contributions are tax-deductible

Earnings are tax deferred

Distributions are **fully taxable** as ordinary income

## Roth

Contributions are after-tax dollars

Earnings are tax deferred

Distributions are **tax free**

# TAXATION OF QUALIFIED MONEY

## Traditionally qualified accounts

- At age 72, you must begin taking a Required Minimum Distribution (RMD)
  - Fully taxable and can't be rolled into any other qualified account
- Upon your death, your spouse can inherit your account as if it were theirs
  - All rules that applied to the original account owner apply to the surviving spouse
- Non-spouse beneficiaries are required to distribute 100% of the account within 10 years of your death
  - This cannot be combined with any other qualified retirement accounts

## Roth qualified accounts

- There are no RMDs unless the account is a Roth TSP
  - The TSP requires your RMD to be calculated on 100% of your TSP balance, regardless of whether it's traditional or Roth
- Upon your death, your spouse can inherit a Roth qualified account as if it were theirs
- Non-spouse beneficiaries must distribute 100% of the account within 10 years of your death
  - This is a tax-free distribution

# KEY PLANNING CONSIDERATIONS FOR QUALIFIED MONEY

When deciding the best plan for qualified money, consider your answers to these questions:

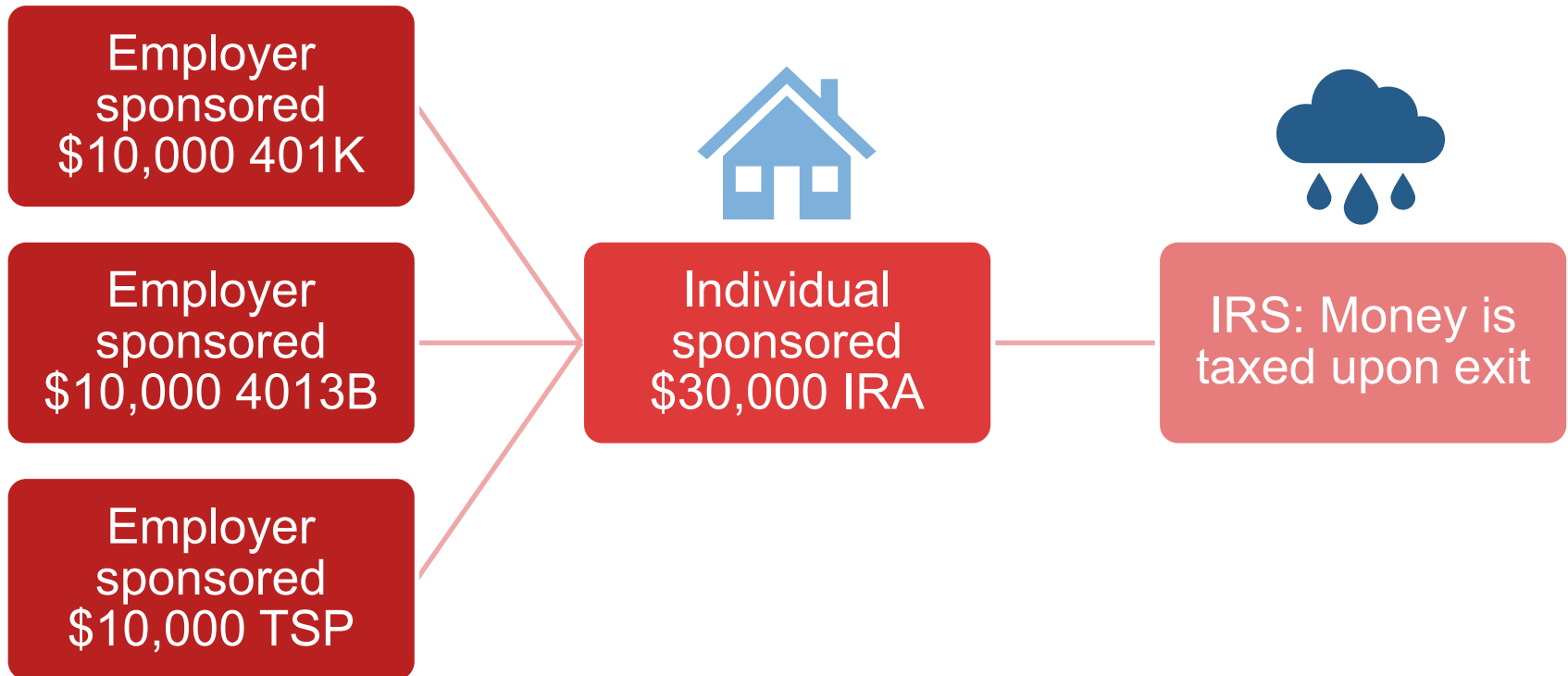
## Does it make sense to transfer your money?

- Employer-sponsored plans have extra restrictions that individual plans do not
- Investment strategy shouldn't be a factor, as 401k investments are comparable to those of IRAs

## How will tax brackets change in the future?

- Consider whether you're better positioned to pay less in taxes today (Roth), or less in the future (traditional)
- The law is written that in 2026 taxes will go up

# EXAMPLE



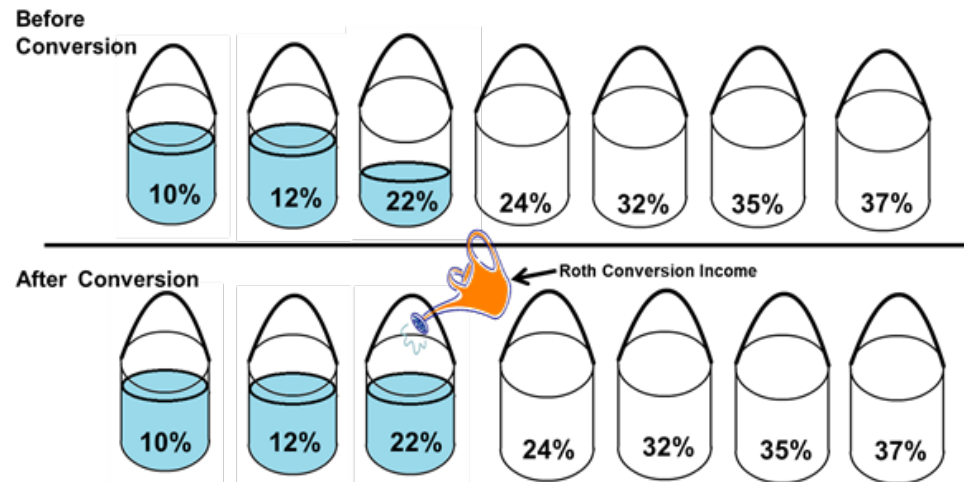
SECTION 4

# OTHER TAX CONSIDERATIONS

# ROTH CONVERSIONS

- Employer-sponsored plans often limit the ability to convert from traditional to Roth, but you can contribute to the Roth portion of your employer-sponsored plan
  - The TSP allows you to contribute to a Roth or traditional TSP, but doesn't allow you to convert

- Individually sponsored accounts are allowed to be converted from traditional to Roth
  - Taxes are due to the IRS upon conversion



# TAXES AND VOLATILITY



Stock market dips are prime time for tax planning

Due to volatility, when your investments see a significant dip and you plan on holding them, converting them at the dip is crucial

If the investment rises again, you will receive those earnings tax-free



# TAXES AND SOCIAL SECURITY

Social Security is taxable as ordinary income up to 85%

The amount depends on all other forms of income that an individual has, including:

- Pensions
- Rental income
- Traditional distributions
- Dividends
- Tax-free interest
- Roth TSP distributions

The less taxable provisional income you have, the less your Social Security is taxed

Roth IRAs are exempt

# OTHER TAX STRATEGIES TO CONSIDER

## The order in which you take assets is critical in retirement

- Letting traditional accounts grow could result in much higher lifetime taxes
- Work with your advisor to ensure you are accessing the proper bucket of money in the proper order

## For example, which makes more sense?



Spending non-qualified money in the first years of retirement, enjoying lower capital gains rates, and delaying taking traditional IRA money until you are 72 when the RMD kicks in?

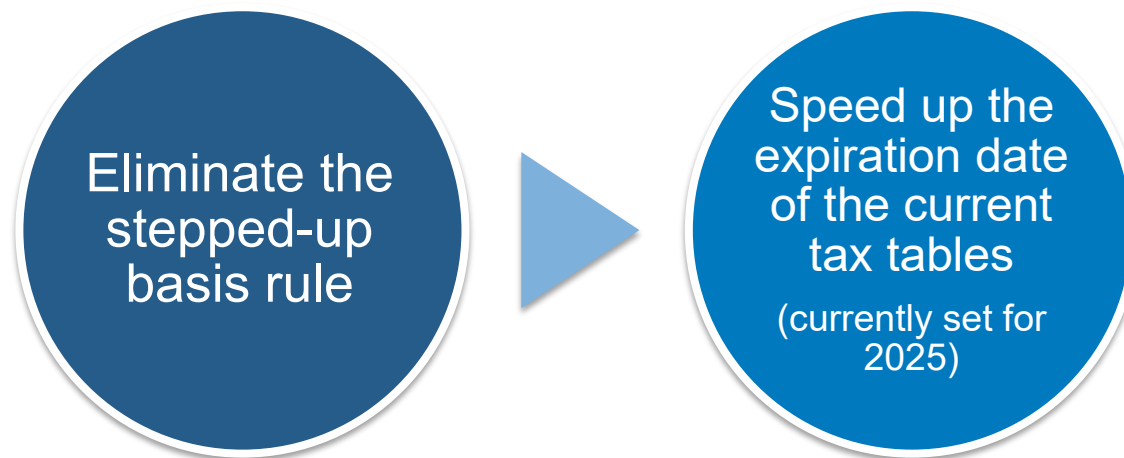
**OR**



Aggressively taxing traditional IRA money in the early years, reducing your RMD, and leaving a tax-free inheritance behind due to stepped up basis?

# KEY TAX CHANGES TO KEEP AN EYE ON

There are multiple proposals in the House that will eliminate the conversion of non-deductible IRAs/401Ks from traditional to Roth, including ones that aim to:



**Note:** There is constant change, and nothing can be predicted

# SUMMARY



- Plan for the current marginal tax brackets to expire, potentially much sooner than 2025
- Determine whether your money is qualified or non-qualified and understand how it will be taxed
- Conduct an income analysis of your retirement situation to see how your taxable accounts integrate with Social Security
- Remember that taxation doesn't end with you – it can be passed on to the next generation
- Keep an eye on tax changes and keep your plan dynamic

# RESOURCES

## Websites

- Internal Revenue Service
  - [irs.gov](https://irs.gov)  
Interactive Tax Assistant
    - » [irs.gov/help/ita](https://irs.gov/help/ita)
  - Tax Withholding Estimator
    - » [irs.gov/individuals/tax-withholding-estimator](https://irs.gov/individuals/tax-withholding-estimator)
- The Institute for Financial Education
  - [ifeonline.org](https://ifeonline.org) | [myife.org](https://myife.org)

## Apps

- Cash App Taxes  
*Free filing on phone or online*
  - [cash.app/taxes](https://cash.app/taxes)

## Online Articles

- 4 Ways Your 2021 Taxes Will Be Different From 2020's
  - [aarp.org/money/taxes/info-2021/plan-ahead-credits-deductions-tips.html](https://aarp.org/money/taxes/info-2021/plan-ahead-credits-deductions-tips.html)
- Income Tax Terms Guide: Taxes
  - [investopedia.com/terms/t/taxes.asp](https://investopedia.com/terms/t/taxes.asp)

## Podcast

- For Your Benefit  
*Weekly episodes, Mondays at 10:00am ET*
  - [federalnewsnetwork.com/category/federal-insights/for-your-benefit](https://federalnewsnetwork.com/category/federal-insights/for-your-benefit)

Recommended episode:

Changes in the Tax Law: What to Know for 2022 – December 20, 2021

# THANK YOU



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