



TAX PLANNING:

HOW TO UNLOCK HIDDEN VALUE

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THE BIG PICTURE:

The clock is ticking!
Take advantage of historically
low tax rates



TAXABLE INCOME BRACKETS FOR 2025

Ordinary Income Tax Rates

Marginal Tax Rates	Married Filing Jointly	Single
10%	\$0 – \$23,850	\$0 – \$11,925
12%	\$23,851 – \$96,950	\$11,926 – \$48,475
22%	\$96,951 – \$206,700	\$48,476 – \$103,350
24%	\$206,701 – \$394,600	\$103,351 – \$197,300
32%	\$394,601 – \$501,050	\$197,301 – \$250,525
35%	\$501,051 – \$751,600	\$250,526 – \$626,350
37%	Over \$751,600	Over \$626,350

*The top rate is effectively 40.8% for those subject to the 3.8% Medicare surtax on

Subject to this tax if MAGI is over \$250,000 (joint filers) or \$125,000 (single filers)



TOP FEDERAL INCOME TAX RATES BY YEAR

What was the highest tax rate?

1913	7%	1936	79%	1959	91%	1982	50%	2005	35%
1914	7%	1937	79%	1960	91%	1983	50%	2006	35%
1915	7%	1938	79%	1961	91%	1984	50%	2007	35%
1916	15%	1939	79%	1962	91%	1985	50%	2008	35%
1917	67%	1940	79%	1963	91%	1986	50%	2009	35%
1918	77%	1941	81%	1964	77%	1987	38.5%	2010	35%
1919	73%	1942	88%	1965	70%	1988	28%	2011	35%
1920	73%	1943	88%	1966	70%	1989	28%	2012	35%
1921	73%	1944	94%	1967	70%	1990	28%	2013	39.6%
1922	58%	1945	94%	1968	70%	1991	31%	2014	39.6%
1923	58%	1946	91%	1969	70%	1992	31%	2015	39.6%
1924	46%	1947	91%	1970	70%	1993	39.6%	2016	39.6%
1925	25%	1948	91%	1971	70%	1994	39.6%	2017	39.6%
1926	25%	1949	91%	1972	70%	1995	39.6%	2018	37%
1927	25%	1950	91%	1973	70%	1996	39.6%	2019	37%
1928	25%	1951	91%	1974	70%	1997	39.6%	2020	37%
1929	25%	1952	92%	1975	70%	1998	39.6%	2021	37%
1930	25%	1953	92%	1976	70%	1999	39.6%	2022	37%
1931	25%	1954	91%	1977	70%	2000	39.6%	2023	37%
1932	63%	1955	91%	1978	70%	2001	39.1%	2024	37%
1933	63%	1956	91%	1979	70%	2002	38.6%	2025	37%
1934	63%	1957	91%	1980	70%	2003	35%	2026	??
1935	63%	1958	91%	1981	70%	2004	35%		



INFLATION & TAXES

Inflation benefits?

Yes, inflation is a problem, but
when it comes to tax planning, it's
an opportunity!

The cost-of-living increases
(inflation-adjusted amounts)
result in expanded tax brackets.



KEY PLANNING POINT FOR 2025...

Congress and Administration extended the tax cuts, originally set to expire after 2025!

More income can now pass through the lower brackets than ever before.



PLANNING UNDER THE NEW ADMINISTRATION

Tax Cuts

- Continued big deductions for certain businesses
- Creates more opportunities for IRA distributions at historically low tax rates

QBI – Qualified Business Income Deductions

- Extended window for Roth conversions at historically low tax rates

- Gradual tax bracket increases allow more income to pass through lower tax brackets

Estate & Gift Exemptions

- More years to transfer assets to heirs estate-tax-free

- Reduce the estate's value and future estate tax exposure





RETHINKING RETIREMENT TAX PLANNING FOR 2025, AND BEYOND





SECURE ACT

Setting Every Community Up for Retirement Enhancement Act of 2019



Old Law:

Stretch IRA for all designated beneficiaries – individuals named on the IRA or plan beneficiary forms, and qualifying trusts

2020 Law:

Stretch IRA was eliminated – replaced with a 10-year payout for most non-spouse beneficiaries, except “Eligible Designated Beneficiaries”



SECURE ACT?

“

Don't be fooled by the name Congress gave to their recent raid of your retirement savings.

They call the law the 'SECURE Act,' but it does the exact opposite when it comes to the retirement funds you leave to your children and grandchildren.

– Ed Slott, CPA, America's IRA Expert
Author of *The New Retirement Savings Time Bomb*

”



The ALAR Rule

At Least As Rapidly Rule

Per IRS final regulations – when death occurs on or after the RBD (original owner reached RMD age) – ALAR rule applies

According to IRS, **once RMDs begin, they cannot be turned off.**
They must continue.



The ALAR Rule

At Least As Rapidly Rule

Per 2024 IRA Final Regs:

Beneficiaries subject to the 10-year rule, who inherit from someone who dies on or after the RBD, **must take annual RMDs for years 1-9, AND the 10-year rule also applies.**



The ALAR Rule

At Least As Rapidly Rule

Translation:

**BOTH rules apply when death is on or after the RBD
(required beginning date):**

1. The “at least as rapidly” rule which requires RMDs continue each year following death.
2. The 10-year rule: where all funds in the inherited IRA must be withdrawn by the end of the 10th year following death.





The RBD is an RBD!

Really Big Deal!



Example:

IRA owner dies at age 75 (after RMDs have begun), and his beneficiary is his son, age 52. The son is a designated beneficiary and is subject to the 10-year rule but must also take “stretch IRA RMDs for years 1-9, since death was after the RBD (RMDs began).



RMDs will be required for years 1-9, and the balance must be withdrawn by the end of the 10-year term!





Roth IRA Advantage



Example: *Same Facts*

Roth IRA owner dies at age 75 (after RMDs have begun), and his beneficiary is his son, age 52. The son is a designated beneficiary and is subject to the 10-year rule ***BUT no distributions are required until the end of the 10-year term.***



All Roth IRA owners are deemed to have died before their RBD, so Roth designated beneficiaries will not have to take RMDs for years 1-9. They can wait until the end of the 10-year term to withdraw the balance - HUGE Roth IRA advantage!



ELIGIBLE DESIGNATED BENEFICIARIES

EDBs - 5 classes:

1. Surviving spouse
2. Minor children (until age 21), not grandchildren
3. Disabled individuals
4. Chronically ill individuals
5. Individuals not more than 10-years younger than the IRA owner

For deaths after 2019. For deaths in 2019 or prior years, the pre-SECURE Act (stretch IRA) rules would apply



RETHINKING RETIREMENT TAX PLANNING FOR 2025, AND BEYOND



Instead of RMDs driving distributions, let *tax planning* drive distribution planning.

Okay, but how?





Don't Waste Lower Tax Brackets!

Minimum Mentality:

Only taking what is required, likely resulting in **more taxes long-term.**



Maximum Mentality:

Use lower tax brackets every year. **Do NOT waste them.**

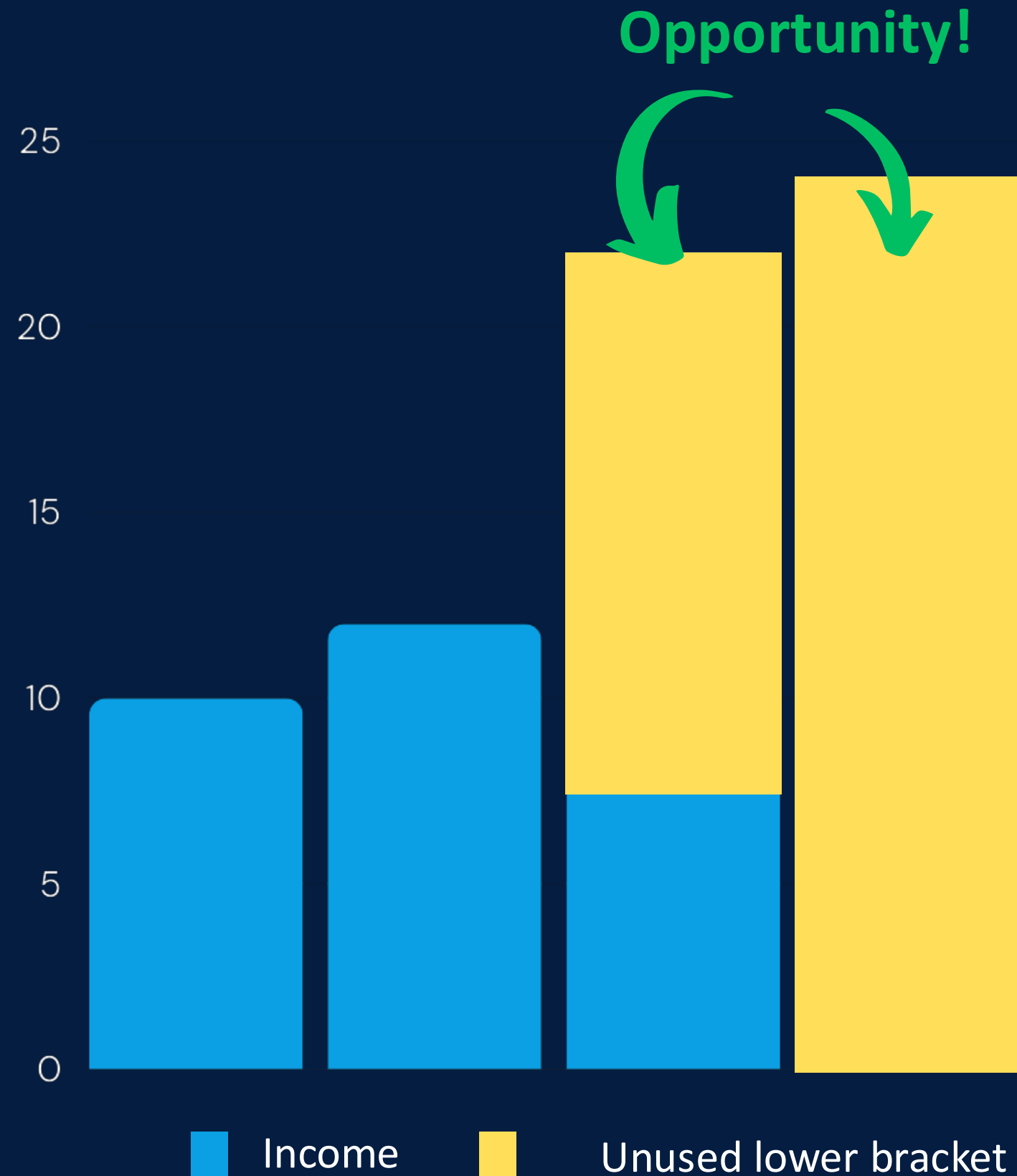
Unused lower brackets = **lost forever**

Resulting in larger tax bills later at likely **HIGHER** rates



Don't Waste Lower Tax Brackets!

Imagine:
How much can be
withdrawn each year
while maximizing the
lower tax brackets –
12%, 22%, and 24%.



STOP ADDING FUEL TO THE FIRE!

Stop contributing to Traditional IRAs and 401(k)s

- Contributions to Traditional IRAs and 401(k)s will only increase future tax burdens
 - Consider Roth IRAs and Roth 401(k)s instead.
- What about tax deductions?
 - Tax deductions today are not worth tomorrow's (likely) higher tax rates.
- What about the 401(k) company match?
 - It can now go into a Roth 401(k)!



A SMARTER Plan

Start reducing your IRA balances now
while tax rates are low:

- ☒ **Roth Conversions:** Shift to tax-free growth
- ☒ **Life Insurance:** Create a tax-free legacy
- ☒ **Charitable Planning:** Minimize taxes while maximizing impact.

Don't wait for the tax time bomb to explode!



RETHINKING RETIREMENT TAX PLANNING FOR 2025, AND BEYOND



Roth conversion opportunity: 2025...



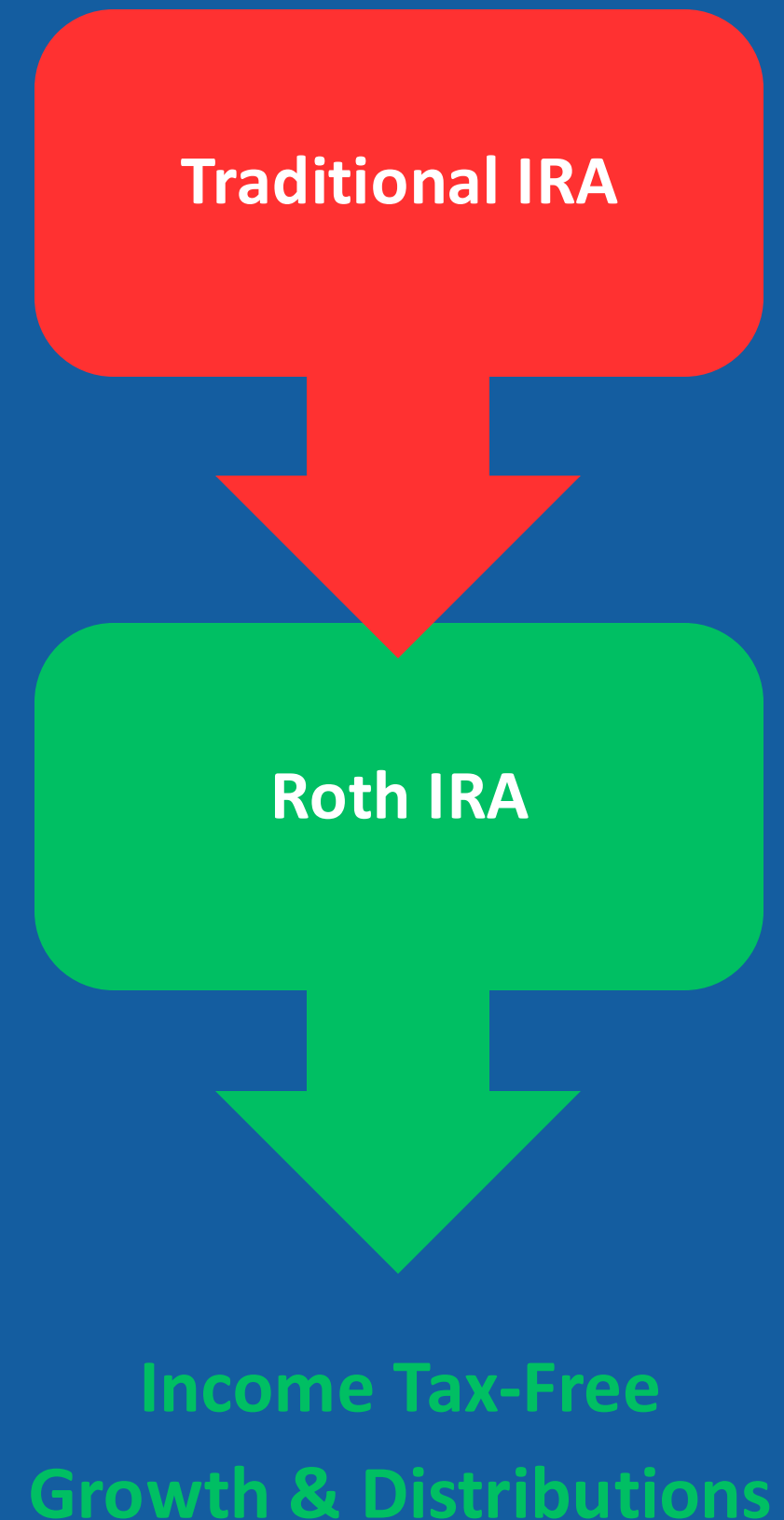
Roth Conversion Evaluation

Income taxes will be due on the Roth conversion

- Roth conversions are permanent.
- They cannot be undone.
- Income tax, at ordinary income tax rates, will be paid on all pre-tax funds converted to a Roth IRA.

Roth IRAs grow tax-free

- Once funds are in the Roth IRA, they will grow income tax-free for the life of the Roth IRA owner.
- Roth IRAs are included in the estate.



ROTH CONVERSIONS

Roth IRA distributions can be withdrawn *tax-free*:
IF the Roth IRA funds are held

- For 5 years AND
- Until age 59 ½

Then all distributions will be *tax-free*,
including distributions to Roth IRA beneficiaries.

No Lifetime RMDs for Roth IRA owners

- Most non-spouse beneficiaries will be subject to the 10-year payout rule under the SECURE Act.



Benefits of a Roth Conversion

Roth IRA distributions can be withdrawn **tax-free**

- Tax-free income in retirement keeps taxable income low, even if tax rates increase.

Qualified distributions are **tax-free**

- Held for 5 years since first Roth conversion or contribution, **AND**
- Age 59 ½, **OR**
- Disabled, **OR**
- Death (paid to a beneficiary), **OR**
- First-time homebuyer – *up to a \$10,000 lifetime limit*



Reasons to Convert...

-  Pay taxes *once*, and *never again*
-  Tax Insurance: A Roth conversion *locks in today's low tax rates.*
 - *How much can YOU convert at the lowest tax rates??*
-  Roth IRAs *remove the uncertainty* of what future tax rates might be.
-  If future tax rates increase, tax-free Roth IRA income will be *even more valuable.*



Reasons to Convert...



Tax Risk Diversification: Roth IRAs increase funds that will be free of future taxes.



Tax-free income in retirement.



NO Required Minimum Distributions!

- Also, there are no lifetime RMDs for a spouse who moves inherited Roth IRA funds over to his/her own Roth IRA (spousal rollover).
- A younger or surviving spouse can extend the time that Roth funds are not subject to RMDs (before funds pass to heirs).



Benefits of a Roth Conversion:

Roth conversions can reduce taxable income in retirement in two ways:

1

The conversion moves funds from an IRA with RMDs taxed as ordinary income to a *tax-free* Roth IRA with no RMDs during lifetime.

- Lower RMDs = Lower Taxes

2

The funds used to pay the income tax on the Roth conversion are *removed from taxable funds* – potentially reducing future exposure to capital gains taxes and the 3.8% surtax.

- Roth IRA funds will *compound income tax-free* until the account is emptied.
- Most non-spouse beneficiaries must empty the inherited Roth funds by the end of the 10th year after death (SECURE Act).





ESTATE PLANNING BENEFITS OF ROTH IRAS



Estate Planning Benefits

A Roth conversion can *reduce the estate* (from the taxes paid on the Roth conversion).

Roth funds can be *gifted income tax-free* to reduce the estate (through qualified Roth distributions).

State estate tax benefit for states with lower estate tax exemptions than federal.

Roth conversions can *eliminate double tax* – income and estate tax.

***If the estate will be subject to state estate tax, there is no IRD deduction for state estate tax.*



Estate Planning Benefits



- ★ *A Roth conversion is a gift to beneficiaries* – paying a tax that they would otherwise have to pay (possibly at higher tax rates)
- ★ *Post-death tax planning flexibility* under the SECURE Act 10-year rule
 - No annual post-death RMDs, except at the end of the 10th year.
 - Provides more tax-efficient post-death planning and control.



Estate Planning Benefits

The SECURE Act eliminated the stretch IRA for most non-spouse beneficiaries – including most trusts.

Exception: “Eligible Designatd Beneficiaries” (EDBs) still get the stretch IRA

★ Roth IRAs are a *better asset to leave to a trust* when post-death control is needed.

★ Roth conversions can *avoid high trust taxes for heirs* IF a trust is the beneficiary.

- Post-death distributions to the trust are *tax-free*.
- SECURE Act – most trusts will be subject to the 10-year payout rule after death. However, the inherited Roth funds paid out to the trust can be *held and protected in the trust, even after the 10-years*.

2025 Trust Tax Rates

10%	\$0–\$3,150
24%	\$3,151–\$11,450
35%	\$11,451–\$15,650
37%	Over \$15,650





ROTH CONVERSION DRAWBACKS



Reasons NOT to Convert

- ✓ *Tax must be paid upfront* – this means paying a tax that could otherwise be deferred if no conversion is performed.
- ✓ Roth IRA conversions *cannot be undone*. Once the conversion is done, the tax is owed and must be paid.
- ✓ Legislative Risk – Can you trust Congress to keep its word? *Of course not!*



Reasons NOT to Convert

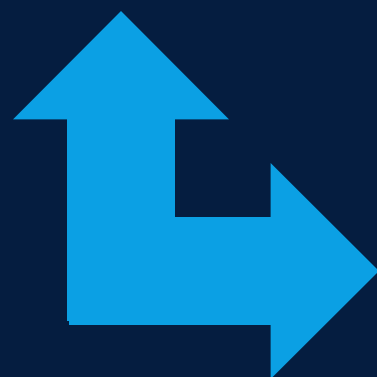
Side Effects of Roth Conversions:



Roth conversions increase adjusted gross income (AGI).



Added Roth conversion income **triggers stealth taxes and loss of tax benefits** that get phased out, including itemized deductions, credits and other tax benefits based on AGI.



ONLY happens in the year of the Roth conversion

- Tax on Social Security
- Medicare Part B and D premiums – IRMAA charges
 - 20% QBI deduction
 - 3.8% tax on Net Investment Income
- Financial aid eligibility + other education-related tax benefits
- Medical deductions – *must exceed 7.5% of AGI*
 - Real estate losses



Reasons NOT to Convert

When a Roth conversion might not pay:

Don't convert if the funds may be needed soon after the conversion.

- ✓ Roth benefits are better when the Roth funds are *held long-term*, so that all distributions will be tax and penalty-free (qualified distributions).
- ✓ *The 10% early distribution penalty applies* to converted amounts withdrawn in the first 5 years of each conversion (but only until age 59 ½).

***Earnings on converted amounts will be taxed at ordinary income until the 5-year rule is met.*



Reasons NOT to Convert

When a Roth conversion might not pay:



Will ***YOUR*** future tax rates be lower?

- Will your ***beneficiaries*** be in lower tax brackets?



Are there multiple beneficiaries?

- The tax brackets can be split, leveraging the lower tax brackets – even with a 10-year payout period.
- **Example:** 3 beneficiaries can spread the income tax over 30 tax returns, using up the lower brackets on each tax return.



Reasons NOT to Convert

Tax Deductions Could be Lost



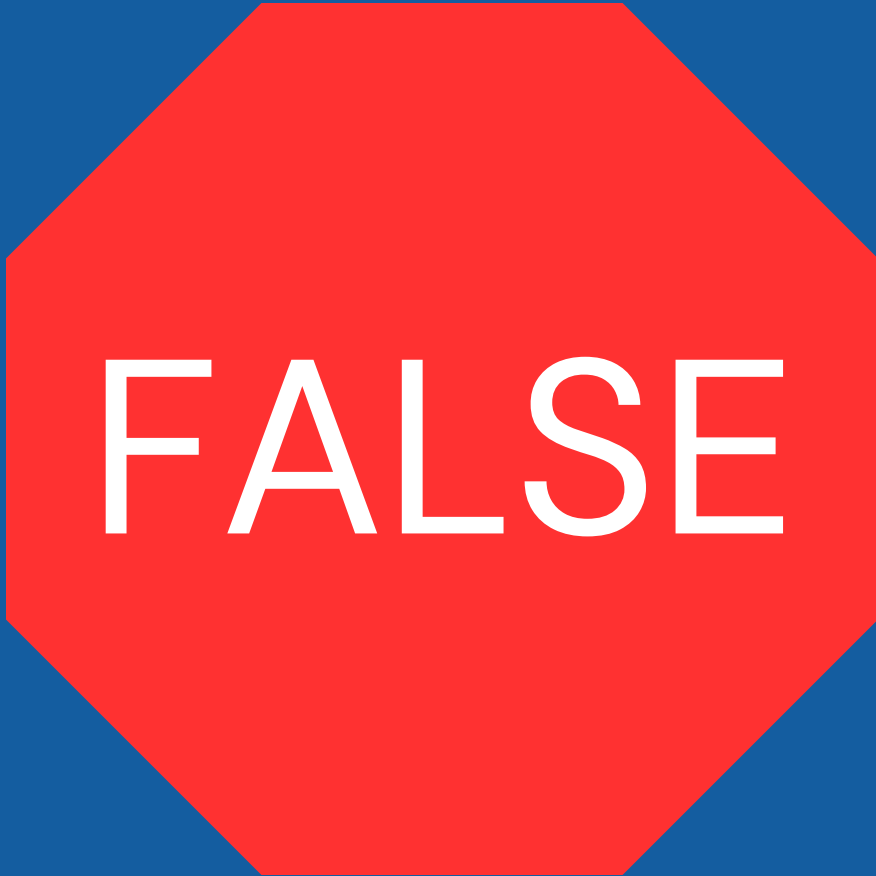
- ★ Roth conversions will reduce or eliminate the balance in Traditional IRAs, so future deductions, losses or lower tax brackets may be wasted.
- ★ *DO NOT convert if IRA funds may be needed to fund upcoming expenses, or for charitable contributions* (e.g., high medical expenses, business losses, QCDs).
- ★ RMD income and other taxable IRA distributions can be offset with these deductions.



Roth Conversion Evaluation

Opportunity Cost Argument

Opportunity Cost Argument: *The funds used to pay the tax from a Roth conversion could have been otherwise invested, and that investment return potential is lost.*



FALSE

It's all about the Tax Rates

- There is NO opportunity cost in terms of lost investment gains *if the tax rates are the same*, both at conversion and later at distribution.



Roth Conversion Evaluation

Opportunity Cost Argument

NO ROTH CONVERSION	WITH ROTH CONVERSION
\$100,000 Traditional IRA Balance x2 (doubles in value over lifetime) \$200,000 -\$60,000 (30% tax)	\$100,000 Traditional IRA Balance -\$30,000 (30% tax) \$70,000 x2 (doubles in value over lifetime)
\$140,000 net	\$140,000 net

The net return is the same *if tax rates stay the same...*
However, the Roth IRA advantage compounds over time if tax rates increase



Roth Conversion Evaluation:

Projecting the Tax

Avoid surprises at tax time next year

Roth conversions cannot be undone!

The Tax Cuts and Jobs Act eliminated Roth conversion recharacterizations – the tax will be owed!

Critical Issue:

How much will the Roth conversion cost in taxes?

An accurate tax projection will be essential before performing any Roth conversion.



TAXABLE INCOME BRACKETS FOR 2025

Ordinary Income Tax Rates

Marginal Tax Rates	Married Filing Jointly	Single
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Subject to this tax if MAGI is over \$250,000 (joint filers) or \$125,000 (single filers)



THE BIG PICTURE:

Start trimming 401(k) and IRA balances now, using up today's historically low tax brackets.





MASONBORO —ADVISORS—

Thanks For Joining!



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