Coleman&Associates

Fully Integrated Tax, Accounting & Financial Services

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New Tax Rules Mean Changes for Retirement Accounts

The SECURE Act 2.0, passed by Congress in late 2022, features numerous ways for you to save more money in your tax advantaged retirement accounts. Here are several of the bill's provisions and what they mean for you.

- **Money can continue to grow tax deferred.** If you turn 72 in 2023 or later, you can keep money in a tax-deferred IRA or 401(k) for another 12 months to help the account continue growing before starting to withdraw funds. This retirement benefit is now available thanks to the required minimum distribution age being raised from age 72 to age 73. The age will increase again from 73 to 75 in 2033.

  Review your retirement account distribution needs and use this extra time to help make your distributions more tax efficient. For example, if you must earn an additional $10,000 before you hit the next highest tax bracket, consider pulling more taxable income out of your retirement account to take advantage of this lower rate. Or use the extra time to consider converting funds tax-efficiently into a Roth IRA.

- **Be aware of auto enrollment.** The government wants you to save for retirement, so the new law allows businesses to automatically transfer a greater portion of your paycheck into their retirement plan. The maximum contribution that can now be automatically deferred into your employer's 401(k) plan increases from 10% to 15%.

  While saving more for retirement is a great idea, this automatic participation does not account for your particular financial needs. So be aware of the possibility that you will automatically be contributing to your retirement account and independently determine what you can afford to put towards retirement. Make any adjustments, if necessary, as you are permitted to opt out of auto enrollment.

- **Take advantage of higher catch-up limits.** Starting in 2024, the $1,000 catch-up contribution for IRAs will receive an annual cost-of-living adjustment in increments of $100, while the $7,500 catch-up contribution for 401(k)s will increase to at least $10,000. This higher 401(k) catch-up limit will also be indexed for inflation starting in 2025. The additional catch-up contribution is available if you're age 50 or older.

  Review the annual savings limit for your retirement savings account, including the catch-up amount if you are 50 years or older. Then make adjustments to your retirement savings plan as soon as possible to take advantage of the higher savings limits.

Tips for Working Beyond Retirement Age

You may be one of many Americans who plan to work into retirement. Some report they need to work because their savings declined over the past several years, while others say they choose to work because of the greater sense of purpose and engagement that working provides. Whatever your reason for continuing to work into retirement, here are some tips to get the greatest benefit from your efforts.

- **Consider delaying Social Security.** You can start receiving Social Security retirement benefits as early as age 62, but if you continue to work it may make sense to delay taking it until as late as age 70. This is because your Social Security benefit may be reduced or be subject to income tax due to your other income. In addition, your Social Security monthly benefit increases when you delay starting the retirement benefit. These increases in monthly benefits stop when you reach age 70.
- **Pay attention to bracket-bumping.** Keep in mind that you may have multiple income streams during retirement that can bump you into a higher tax bracket and make other income taxable if you're not careful. For example, Social Security benefits are only tax-free if you have less than a certain amount of adjusted gross income ($25,000 for individuals and $32,000 for married filing jointly in 2022), otherwise as much as 85 percent of your benefits can be taxable.
- **Be smart about health care.** When you reach age 65, you'll have the option of making Medicare your primary health insurance. If you continue to work, you may be able to stay on your employer's health care plan, switch to Medicare, or adopt a two-plan hybrid option that includes Medicare and a supplemental employer care plan. Look over each option closely. You may find that you're giving up important coverage if you switch to Medicare prematurely while you still have the option of sticking with your employer plan.
- **Consider your expenses.** If you're reducing your working hours or taking a part-time job, also consider the cost of your extra income stream. Calculate how much it costs to commute and park every day, as well as any other work-related expenses. Now consider how much all those expenses amount to in pre-tax income. Be aware whether the benefits you get from working a little extra are worth the extra financial cost.
- **Time to downsize or relocate?** Where and how you live can be an important factor determining the kind of work you can do while you're retired. Downsizing to a smaller residence or moving to a new locale may be a good strategy to pursue a new kind of work and a different lifestyle.
- **Focus on your deeper purpose.** Use your retirement as an opportunity to find work you enjoy and that adds value to your life. Choose a job that expresses your talents and interests, and that provides a place where your experiences are valued by others.

How to Pay Your Income Taxes

The April 15th deadline for individuals to file and pay your income taxes is fast approaching. While paying taxes is not optional, you do have options when it comes to how to pay your taxes.

These options are available for your balance due and your quarterly estimated taxes, if applicable.

IRS Options

The Internal Revenue Service offers a variety of payment options summarized below. You can find out more and get started at https://www.irs.gov/payments

Illinois Options

The Illinois Department of Revenue offers a variety of payment options summarized below. You can find out more and get started at https://tax.illinois.gov/individuals/pay.html

Other states will have similar options. Start with a Google search or ask us for help finding the options for additional states.

As always, contact the office with questions by emailing us at info@colemancpas.com or calling 773-444-3100. We are here to help.

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