Safe Money Advisory

Are You Prepared for the Higher Taxes of 2011?

For Immediate Release
Houston, Texas

Bush Administration tax cuts implemented from 2001-2006 will sunset in 2011. Unless Congress acts, the New Year will bring higher personal tax brackets, steeper taxes on capital gains & dividends, re-instated estate taxes and other tax bites out of your retirement lifestyle. Furthermore, several other new taxes will be added over the next few years and a dollar paid in taxes is one dollar less for your retirement. So, what is your plan to protect your retirement money? Here are some ideas to ponder before 2011.

If you haven't started Social Security, postponing might add dollars to your retirement. Good reasons for delaying SS include: (1) benefits grow 8% annually plus annual cost-of-living adjustments, (2) benefits are always tax-advantaged, (3) spousal benefits are greater, and (4) total lifetime benefits could be more. Using your retirement money like IRAs, 401(k) and other qualified retirement accounts in the right sequence with SS benefits could add thousands to your retirement income. If you've already begun receiving benefits, it's not too late to stop them. This can be done by suspending and re-starting at a later date or by repaying the benefits received, interest-free and starting again later, at higher benefits. What other investment pays 8% annually is inflation proof, has great benefits to a spouse, is tax-advantaged and backed by a government promise? There are none, unless you take risks and depend on luck.

If you are required to withdraw from a retirement account when you reach age 70½, but don't need the money, you may benefit from a tax-free Roth IRA conversion. Converting to a tax-free Roth IRA is especially attractive if you think taxes are going up or your retirement accounts have not recovered previous losses. You can choose to pay the taxes associated with the conversion with your 2010 return or pay 50% with your 2011 return and the other 50% when you file your 2012 return. Another option would be to convert part of your qualified money to a Roth in 2010 with other conversions in future years. This will permit you to manage your tax-bracket and optimize the tax bite. Before you convert money to a tax-free Roth IRA, make sure you and your financial advisor have done the homework to confirm that this is a suitable move for you. Once converted, the Roth IRA has no required distributions as long as you or your spouse are alive, grows tax-free and can be withdrawn tax-free when needed. Also, if passed to beneficiaries, withdrawals can be stretched over their full lifetime and all the money withdrawn is tax-free. Prior to 2010, you could not convert to a Roth if your income exceeded $100,000, but this income limit has now been lifted. The Government is offering a great tax break to the retirement-minded; thus, the Roth conversion is an opportunity that should not be missed.

Dividend income will be taxed as ordinary income in 2011, up from the current maximum rate of 15%. This means a tripling of taxes on dividend income, which could severely hurt many retirees. Also in 2011, the top long-term capital gain tax rate will increase to 20% from the current 15%. The ordinary income tax brackets will be reduced in number and the lowest bracket moved up to 15% and the highest at 39.6%, unless Congress changes before year-end 2010. In the meantime, new taxes are being "invented" by cities, states and other taxing entities to bridge the shortfall in revenues resulting from declining real estate taxes, less sales tax collection, deficiencies in excise & use taxes, lower incomes and higher unemployment. Taxes are rising, that's for sure, and you absolutely must consider the impact on your retirement plans.

Any way you slice the tax pie, you'll most likely pay more after 2010. Starting your tax planning now, to safeguard your retirement income, would be wise. Opportunities to consider include: ways to sequence the use of your retirement money to pay fewer taxes, tax-deferred places to keep your money and converting to tax-free Roth IRAs. Also, if you plan to leave some of your retirement money to heirs, there are other attractive tax-free options. Immunize yourself from higher taxes by working with a financial advisor to find suitable ways to lower taxes and boost retirement income. The tax breaks will not find you; you must find them.

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