

How Retirees can Save on their Taxes

Many people spend a considerable part of their time searching for strategies and trends in the market that will help them earn more money at a faster way. Sometimes, too much focus is spent on this task that people forget the fact that the more money they earn, the more will be taken by the IRS. Thus, it becomes imperative for you to look for ways in saving from your taxes, and you will see the value of this effort during your retirement.

Social security benefits are perhaps the best illustration of this topic. Note that you have been paying your taxes into social security during the years when you were still working. If by chance you've not been diligent in your tax obligation, you might have problems when you will already be getting your social security benefits. There's a big chance that taxes will be imposed on this benefit. Generally, if you obtain social security benefits of at least \$34,000 annually, taxes can be imposed on 85% of this income. Obviously, this is not an ideal situation for retirees who have previously believed that they are done dealing with the IRS.

To avoid being into this situation, you might want to convert your traditional IRA to a Roth IRA. The latter will enable you to have non tax -deductible withdrawals. Like anything else, there are some requirements that have to be met before you qualify for a Roth IRA, but if you meet those, then it's worth a try. On the other hand, you will now be required to pay taxes on the entire converted amount. Depending on your case, you might be obligated to pay large amount of taxes for this. Still, a number of people consider this as a better alternative.

One recourse to this issue is to simply reduce your taxable income. You may want to sell of stocks that are both in a taxable account and are slow at appreciating rather than pulling money out of your IRA. Your capital gains will be lower and this should spell to a reduced taxable income. When you're able to subsist by living on principal, then you have a better chance of qualifying for the 0% tax bracket, just be careful, otherwise, you might face some potential IRS problems.

Believe it or not, spending your money soon after you have acquired it is another tips in saving up on taxes. You might want to spend the earnings in your money market account or CDs in the same year that you've earned that interest. Remember that you have the alternative of spending it as whether or not you spend it, you will still be required to pay taxes on that particular income. To illustrate, it is better to spend the 5% earnings (or \$5,000) on a \$100,000 principal rather than putting it up for IRA distribution. If you put that in an IRA distribution, it will just be added to your overall total tax liability.

In conclusion, retirees have many simple money saving measures to choose from that can be implemented at different points in their lives. Most are easy tips and will only have a minor impact on someone's life. However, the tax savings and extra money that isn't being paid to the IRS will certainly have positive effects on quality of life during the retirement years.

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