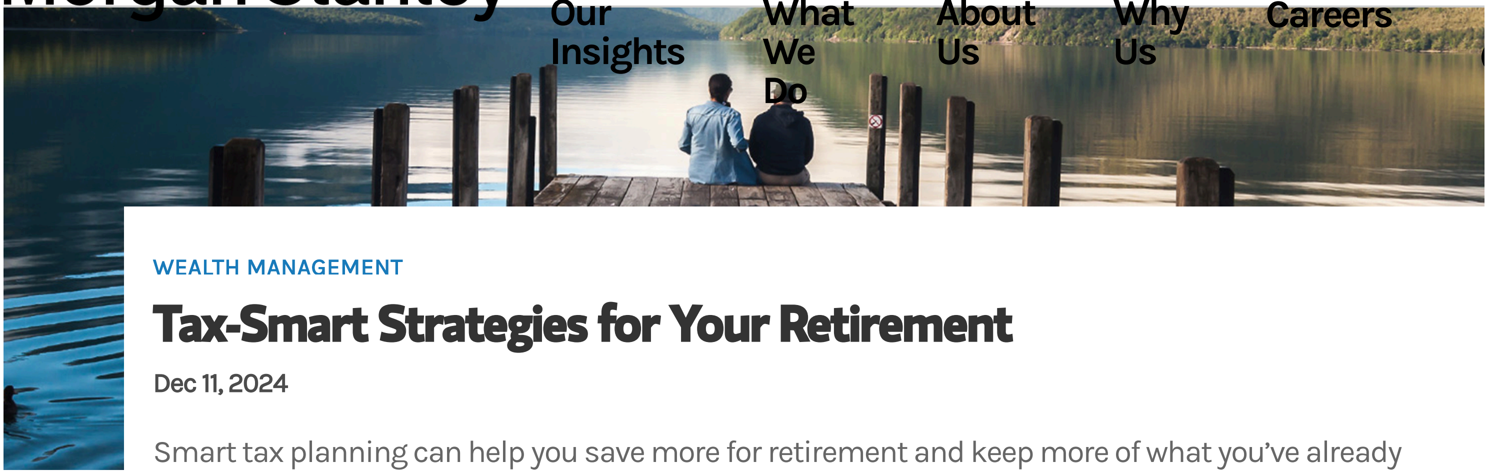

WEALTH MANAGEMENT

Tax-Smart Strategies for Your Retirement

Dec 11, 2024

Smart tax planning can help you save more for retirement and keep more of what you've already saved. Consider these tax-efficient retirement planning strategies.

Key Takeaways

- You generally have until April 15, 2025, to make contributions to an individual retirement account (IRA) for the 2024 tax year and potentially decrease your taxable income for the 2024 tax year.
- A Roth IRA conversion can potentially help you reduce your tax burden in retirement and may make sense if you expect to be in a lower tax bracket at the time of conversion.
- Consider making a qualified charitable distribution to help meet your philanthropic goals while also potentially reducing taxes.

Minimizing taxes in retirement can make your nest egg last longer—and increase the financial legacy you leave after you're gone. Consider these strategies to help you possibly reduce your taxable income, generate tax-advantaged growth potential in your retirement accounts and keep more of what you've worked so hard to save.

1

Max Out Your IRA Contributions

The deadline to contribute to an Individual Retirement Account (IRA) for any given tax year is the due date of your federal income tax return of the following calendar year for most individual taxpayers (generally April 15, 2025, for tax year 2024). Note the two primary types of IRAs:

1. Traditional IRAs, which may offer tax deductible contributions; or
2. Roth IRAs, which have the potential tax-free distributions under certain conditions.[1] Roth IRAs are funded with after-tax contributions.

For the 2024 tax year, the maximum contribution to a Traditional or Roth IRA is the lesser of (a) your taxable compensation for 2024, or (b) $7,000 (or $8,000 if you are age 50 or older at any time during the calendar year). These limits apply to all your Traditional and Roth IRAs combined.[2] In 2025, the limit remains at $7,000 for most savers and $8,000 for those age 50 or older.[3]

If you are self-employed or a small business owner, consider establishing an IRA-based retirement plan, such as a Simplified Employee Pension Plan (SEP IRA), and fund that SEP IRA with employer contributions made under that plan. Note that if your business employs any employees, the SEP IRA will likely have to cover the employees as well if they qualify.

For 2024, the maximum employer contribution to a SEP IRA (or to your own SEP IRA) is the lesser of (a) 25% of your employees' eligible compensation (or, if you are self-employed, 20% of your net earnings from self-employment); or (b) $69,000 in 2024 ($70,000 in 2025).[4] SEP IRAs (and SIMPLE IRAs) designated as Roth IRAs may accept Roth contributions. The deadline to contribute is the due date of the federal income tax return for your business, which in many cases has the same due date as your individual federal income tax return.[5]

2

Consider a Roth IRA Conversion

If your income exceeds certain limits, you may not be allowed to contribute directly to a Roth IRA, but you may be able to convert a Traditional IRA to a Roth IRA, which may help to reduce your overall tax burden in retirement. You'll have to pay federal taxes on the amount converted, including the tax-deductible

Keep in mind, however, that if you complete such a conversion in 2024, it may increase your 2024 adjusted gross income and your commensurate 2024 tax liability. So, this strategy may be the most effective in years when you have a lower income and are in a lower tax bracket.

If you are considering a Roth conversion, speak with your tax advisor about the appropriate time to execute this strategy. It may be prudent to execute a Roth conversion, with an in-kind transfer of securities, when those securities have a relatively lower market value as opposed to a higher or appreciated market value, so that the conversion generates less ordinary federal income tax.

3

Give Your Retirement Distribution to Charity

Generally, individuals age 70½ or older can make a qualified charitable distribution (QCDs) of up to $105,000 in 2024 directly from their IRAs, including inherited IRAs, to an eligible charitable organization. In 2024, they can also make a QCD may now make a one-time charitable distribution of up to $53,000 (as indexed for inflation) from their IRA to certain split interest entities, including charitable remainder annuity trusts, charitable remainder unitrusts and charitable gift annuities.[6]

QCDs are a great strategy for those age 73 and older, who may have to start making required minimum distributions (RMDs) from their retirement accounts. That's because a QCD can count toward satisfying an individual's RMD for the year if certain rules are met. However, if an individual makes a tax-deductible contribution to their IRA after age 70½, the amount the individual can exclude from their taxable income as a QCD will generally be reduced.

Make sure to work with your tax advisor to ensure that you satisfy all the QCD requirements and that you have correctly reported QCDs have on your tax return.

If you're not yet 70 ½, you can still give to charity by donating appreciated stock directly to a qualified charity. If you meet certain requirements, this may allow you to avoid the capital gains tax you'd owe on the stock while also creating a tax deduction for the donation, as long as you itemize your taxes.

4

Morgan Stanley National Advisory 529 Plan) for grandchildren or other family members. While you will likely owe federal income taxes on the distribution, once you invest the funds in a 529 plan they can potentially grow federal income tax-free. Any withdrawal from the 529 plan used for qualified higher education expenses, as defined by the IRS, will generally be federal income tax-free.[7]

In addition, you can take advantage of penalty-tax-free rollovers of certain assets held in 529 qualified tuition plans to a Roth IRA maintained for the benefit of the 529 plan's beneficiary, subject to certain conditions. Note that such rollovers must remain below annual Roth IRA contribution limits and an overarching $35,000 lifetime limit. Also, the 529 plan must be established and maintained for at least 15 years, and the IRA owner must have compensation equal or above the amount of the rollover in addition to other requirements and limitations.

5

Save More in a Variable Annuity

If you've contributed the maximum allowable to your 401(k) plans, IRAs and/or other tax-qualified retirement accounts, consider putting additional savings into variable annuities. Assets in a variable annuity maintain tax-deferred growth potential until the contract owner makes withdrawals, and they're not subject to IRS contribution limits.

When you retire, depending on your annuity contract, you may be able to elect to receive regular income payments for a specified period or spread over your lifetime. Many annuities also offer a variety of living and death benefit options, usually for additional fees.

Start Planning Today

With Total Tax 365, Morgan Stanley Financial Advisors offer tax-smart strategies to help you reduce the impact of taxes, all year round. Talk to your Morgan Stanley Financial Advisor to learn more.

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Footnotes:

[1] *Restrictions, income taxes and additional taxes for early distributions may apply.*

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