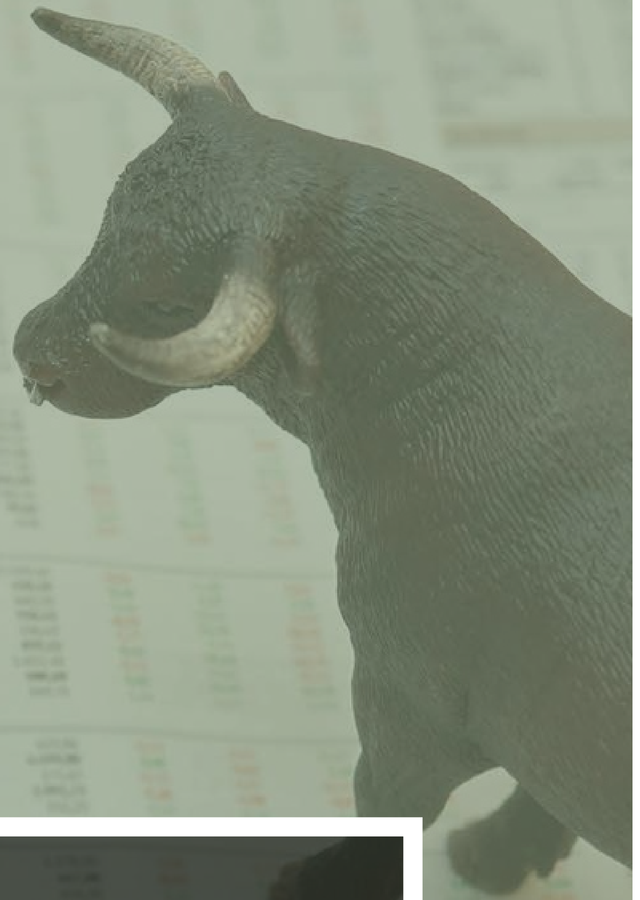
thrive
FINANCIAL SERVICES

2022



THRIVE RETIREMENT TAX PLAYBOOK:

IMPORTANT TAX STRATEGIES FOR RETIREES

INTRODUCTION

This is the first installment in our Retirement Planning Playbook series. Our goal with this series is to leverage our retirement planning experience in order to provide insights into the important parts in the retirement planning process.

There is no "one size fits all" approach to creating a retirement plan. Everyone has traveled their own unique path to retirement, which is why every client we work with has a plan that is tailored to their situation. Each installment of our Retirement Planning Playbook series is designed to be educational in nature and should not be used as the sole basis for any decisions you make.

Hopefully, the information we provide will help you begin to think about some of the important decisions you will face in retirement. You can also use this guide as a litmus test to evaluate your current financial advisor.

If your current financial advisor is not helping you build a plan that addresses all the components of retirement planning it might be time for a change. We would love the opportunity to show you how our comprehensive planning and investment management services can help you achieve the retirement of your dreams.

You have worked hard to put yourself in a position to retire, now let's ensure you only have to retire once!

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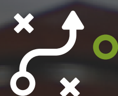
Tax Planning Basics

We will start with a few basic concepts that will help you better understand the tax planning strategies we will discuss later in this guide.



Key Components of Your Tax Return

Understanding five essential parts of the tax calculation will allow you to make smart decisions that keep more money in your pocket during retirement.

Outlined below is a description of the five key components of the tax calculation and where to find them on your tax return.

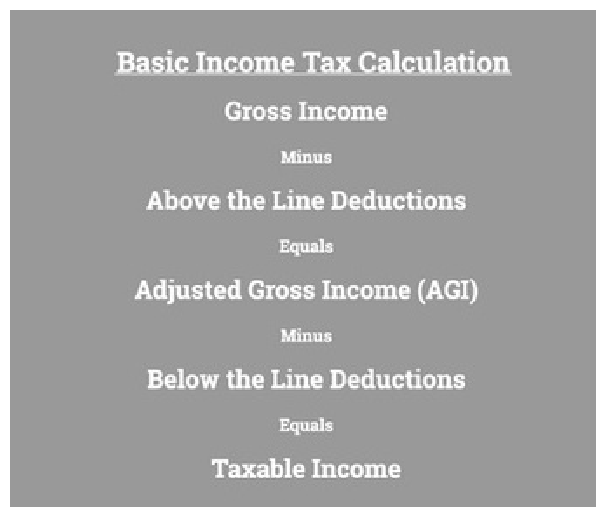
Gross Income (Form 1040, Line 7b): Gross income is the sum of all your reportable income for the year. This includes wages, pension income, taxable interest, dividends, capital gains, etc.

Above the Line Deductions (Form 1040, Line 8a): Deductions for Individual Retirement Accounts (IRA) and Health Savings Accounts (HSA) contributions are the main above the line deductions on a typical tax return.

Adjusted Gross Income (Form 1040, Line 8b): Your AGI is an important number to know as it serves as the basis for your eligibility for IRA contributions. Your health care premiums, including Medicare, can also be affected by your AGI.

Below the Line Deductions (Form 1040, Line 9): The Tax Cuts and Jobs Act (TCJA) passed in 2017 simplified below-the-line deductions for most taxpayers. TCJA got rid of personal exemptions, put limits on a few common itemized deductions, and increased the standard deduction. The result is most people are better off claiming the standard deduction since the caps placed on itemized deductions lowered their eligible itemized deductions to the point that the standard deduction is higher.

Taxable Income (Form 1040, Line 11b): Your taxable income is the income that flows through to the income tax brackets which determines the tax rates that apply to your income. We will discuss Income Tax Brackets in more detail but for now, it's important to understand the steps taken to get to your taxable income.



Income Tax Rates and Tax Brackets

Managing your tax brackets is the key to ensuring you don't pay more in taxes than your fair share.

Tax Rates & Brackets for Ordinary Income

The US tax system is a progressive tax system, which means the more money you make the higher it will be taxed. There are currently seven tiers, or brackets, ranging from 10% at the lowest bracket up to 37% at the highest bracket. Your taxable income is what flows through to the applicable tax brackets. It doesn't matter if your taxable income is $500,000 or $10,000, your first $10,275 ($20,550 for MFJ) of taxable income will be taxed at 10%.

Tax Rates & Brackets for Long-Term Capital Gains

Long-term capital gains are realized when you sell an investment that has appreciated in value and has been held for longer than 12 months. In order to encourage long-term investment of capital, our tax system gives preferential tax treatment to realized long-term capital gain income. There are three long-term capital gains tax brackets ranging from 0%up to 20%.

How Taxable Income is Stacked

Once you have determined your taxable income, you will need to know what (if any) portion is ordinary income and what portion is long-term capital gain income. Ordinary income comes first when you are applying your income to the tax brackets. Long-term capital gains get stacked on top of ordinary income.

For example: If you are a single tax filer with $45,000 in ordinary income plus $10,000 in long-term capital gains, your capital gains will be taxed at 15% because your $40,000 in ordinary income will push your long-term capital gains into the 15% tax bracket.

2022 Federal Income Tax Brackets

Tax Rate	Single Filer	Married Filing Jointly
10%	Up to $10,275	Up to $20,550
12%	$10,276 to $41,775	$20,551 to $83,550
22%	$41,776 to $89,075	$83,551 to $178,150
24%	$89,076 to $170,050	$178,151 to $340,100
32%	$170,051 to $215,950	$340,101 to $431,900
35%	$215,951 to $539,900	$431,901 to $647,850
37%	Over $539,900	Over $647,850

source: Internal Revenue Service

2022 Tax Rates for Long-term Capital Gains

Tax Rate	Single Filer	Married Filing Jointly
0%	Up to $41,675	Up to $83,350
15%	$41,676 to $459,750	$83,350 to $517,200
20%	$459,750 or More	$517,200 or More

source: Internal Revenue Service

Income Tax Rates and Tax Brackets

Managing your tax brackets is the key to ensuring you don't pay more in taxes than your fair share.

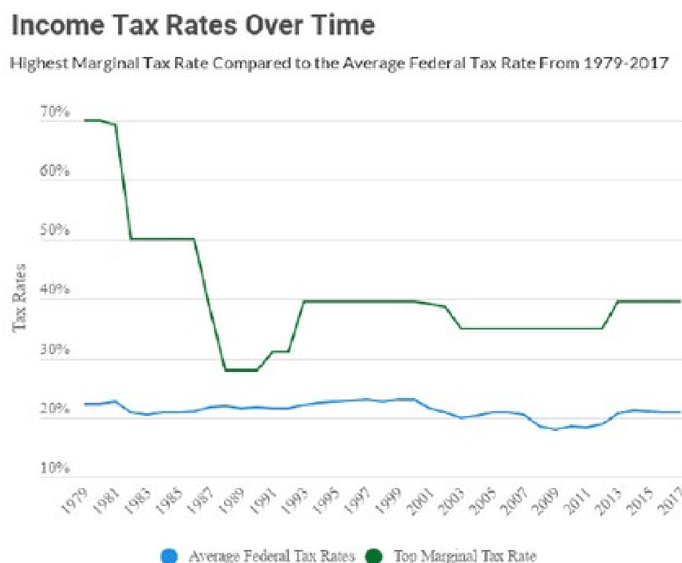
One of the complexities of strategic tax planning is that our tax system changes. If we knew what tax rates were going to be 20 or 30 years into the future, it would make the planning process a lot easier.

The chart on the right shows how the top marginal tax rate has changed over time compared to the average federal tax rate for all households. It's true there have been drastic changes to the top marginal bracket but the top bracket only applies to a small percentage of households. In 2022, a couple filing a joint tax return would not be taxed at the top marginal rate until their taxable income reached $647,850. While all tax rates change over time, the rates that change the most are the rates at the top, which don't affect the vast majority of retirees.

A better way to view historical tax rates is to look at average tax rates. The big swings in the highest marginal rate are not present when looking at the average rates paid.

All too often, we see the top marginal rate chart used as a scare tactic by advisors or insurance salespeople without explaining that you would need over half a million dollars in taxable income for this rate to matter.

We are likely to see higher tax rates in the future. Current tax rates are historically low and we are racking up massive amounts of Federal debt that will need to be reigned in eventually.



Tax Planning Strategies

The ultimate goal for tax planning during retirement is to ensure you pay your fair share of taxes but not a dollar more. The strategies we will discuss next can help you achieve that goal.

Finding Your Tax Equilibrium Point

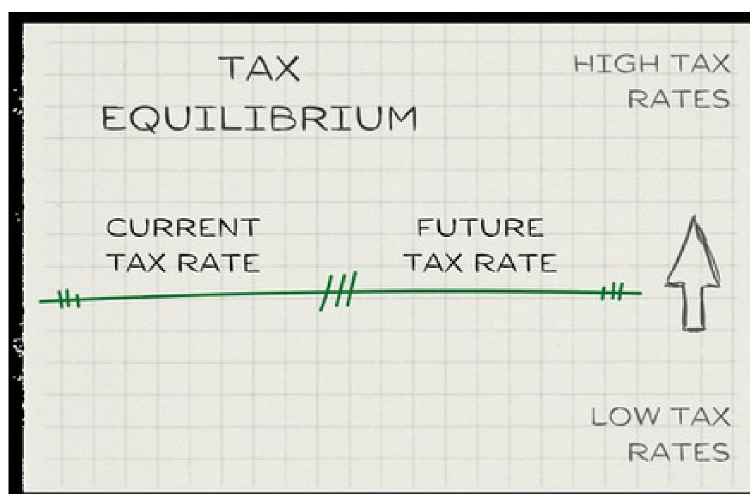
One of the best tax planning opportunities for retirees stems from an increase in the amount of control you have over your income during retirement.

In your pre-retirement years, you often have very little control over the amount of income that shows up on your tax return. In retirement, you control how much you distribute from your accounts, what accounts you distribute from, and when you start retirement income sources such as pensions and Social Security benefits. The key to taking advantage of this opportunity is to find your tax equilibrium point.

Your tax equilibrium point is like the balancing point on a seesaw. It's the point at which you are able to fill up lower tax brackets today and still defer enough income to fill up lower tax brackets in the future. Balancing your current and future taxable income eliminates potential income spikes that could be exposed to higher marginal rates.

A long-term financial projection that illustrates your future retirement income sources and current wealth trajectory is the first step to finding your tax equilibrium point. Understanding how your current taxable income compares to your expected taxable income throughout your retirement years will help you identify how your tax rate today compares to what it will be in the future.

Tax equilibrium points are highly personalized. So me retirees might have an equilibrium point that keeps their taxable income in the 12% bracket now and in the future. Others might have an equilibrium point in the 22% tax bracket or higher. It doesn't matter what bracket your equilibrium point falls into. What matters is knowing where that point is so you can build a tax plan focused on maintaining the proper balance of current and future income.



When To Defer vs. When To Accelerate

Once you know your equilibrium point, you can then implement acceleration and deferral strategies in years; your marginal rate will be lower or higher than your equilibrium point.

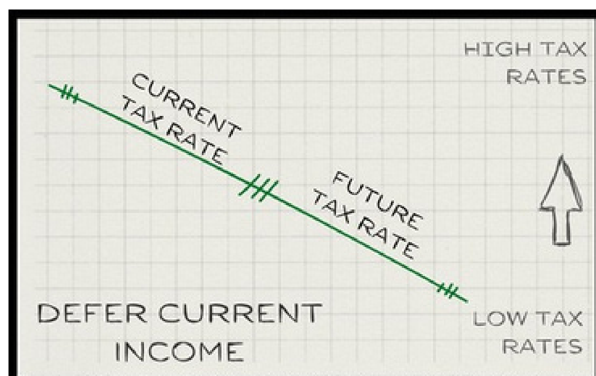
When to Defer Income
When your current marginal rate is higher than your expected future marginal rate, you will want to consider options for deferring current income.

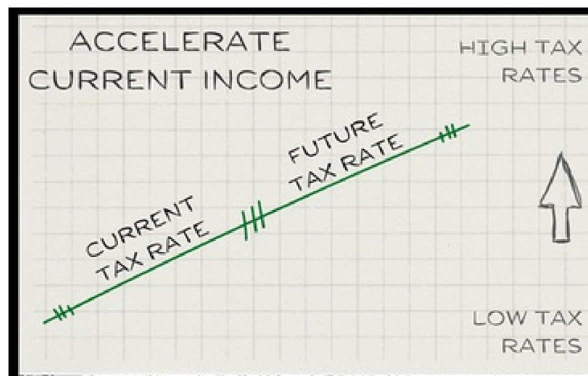
Deferring income when you are retired is often more difficult than accelerating income because there aren't as many deferral options available for retirees. Employer-sponsored retirement plan and IRA contributions are not available to those without earned income.

There are strategies such as capital loss harvesting and limiting distributions from pre-tax retirement accounts that can be effective in preventing additional income on your tax return.

When to Accelerate Income
When your current marginal rate is lower than your expected future marginal rate, it is an excellent time to consider accelerating income. Income acceleration involves intentionally increasing your taxable income in the current year to fill up tax brackets below your tax equilibrium rate.

Since income acceleration is often a new concept for retirees, we will spend the next section providing an overview of the most common income acceleration strategies.





Roth IRA Conversions

Roth conversions are a valuable tool for accelerating income when your current marginal rate is below your equilibrium point.

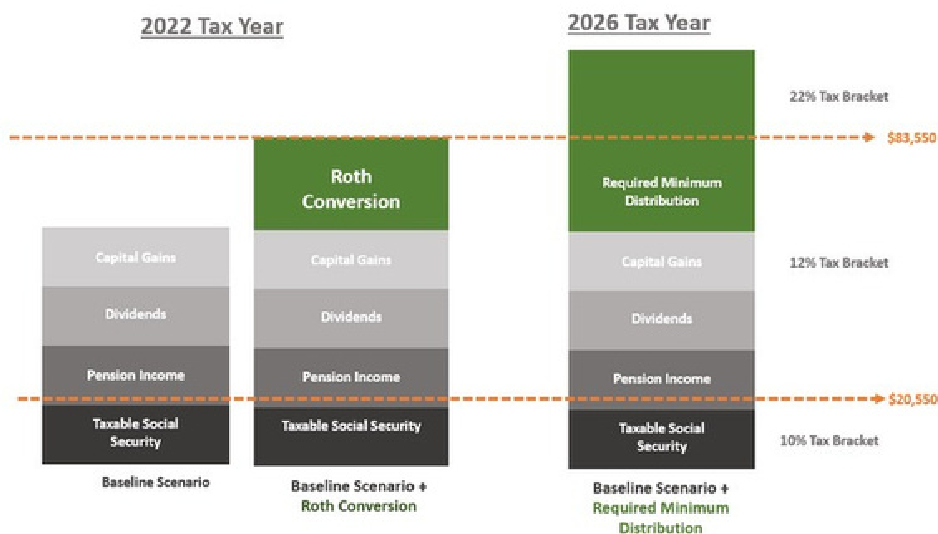
One of the most common ways to accelerate income is through a Roth conversion. Roth conversions give you the ability to strategically accelerate income into lower tax brackets by moving money from pre-tax retirement accounts into a Roth IRA.

There are no limits to the amount of money you can convert to a Roth, but you don't want to be too aggressive as you can end up converting dollars at tax rates above your tax equilibrium rate. The optimal approach to Roth conversions would be to fill up lower tax brackets, while keeping enough money in pre-tax accounts to fill up lower tax brackets in the future.

One of the many benefits to converting pre-tax dollars into a Roth IRA is it allows you to reduce your Required Minimum Distributions. Roth IRAs also make an excellent vehicle for wealth transfers to future generations as your beneficiaries will be able to make tax-free distributions when they eventually inherit your Roth IRA assets.

Example of a Strategic Roth Conversion

The example illustrated on this page shows a typical scenario where a strategic Roth conversion can make sense. If your required minimum distribution at age 72 will force you to take a distribution from your pre-tax account that will push you into a higher tax bracket than your current bracket, you should consider a Roth conversion.



Accelerating Capital Gains

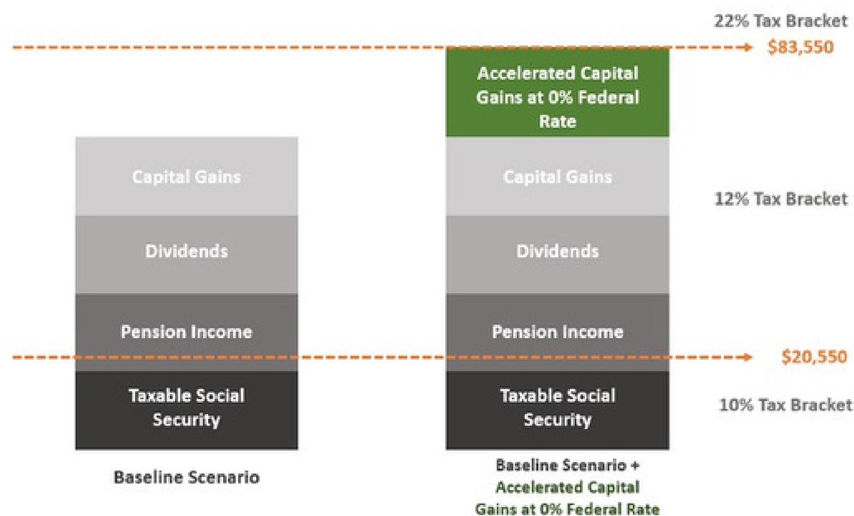
Accelerating capital gains is another tool available to retirees. This strategy can be a very attractive option for retirees in lower tax brackets as capital gains are taxed at a zero percent federal rate for those in the 12% tax bracket or below.

You might have heard of a commonly used tax deferral strategy in which you harvest capital losses by selling investments held in taxable accounts that are trading below your initial purchase price. This strategy is commonly referred to as capital loss harvesting and is widely used by the investment community to offset capital gains.

A less commonly known and utilized strategy involves taking the opposite approach and intentionally incurring capital gains by selling investments that are trading above the amount of your initial investment. This strategy is commonly referred to as accelerating or harvesting capital gains. When you sell an investment and realize a capital gain, you can turn around and buy the same security immediately. This is not the case when you are harvesting capital losses. If you sell a security and realize a capital loss, you must wait 30 days to repurchase the security. This makes harvesting capital gains a more straightforward strategy to implement from a portfolio management perspective.

You need to make sure the position you are selling to harvest a capital gain is a position you have held for a minimum of 12 months to ensure it will be taxed at long-term capital gains rates and not short-term rates, which are the same as ordinary income rates.

Accelerate Capital Gains Example
The illustration on the right is a scenario in which accelerating capital gains would be an effective strategy. Accelerating additional capital gains to fill up the 12% bracket will incur no additional tax liability at the federal level.



Estimated Tax Payments

Avoid underpayment penalties and maximize the time your money is working for you through withholding taxes from your IRA.

The US tax system is set up on a "pay-as-you-go" basis which means taxpayers must pay taxes throughout the year as income is earned. If you don't make tax payments throughout the year, you could end up with an underpayment penalty when you file your taxes in April.

Quarterly estimated tax payments might be a new task for a newly minted retiree. If you were paid a salary in your working years, your employer likely withheld taxes from your paycheck, so you didn't have to worry about making estimated tax payments.

Safe Harbor Guidelines
You can avoid underpayment penalties you make estimated quarterly payments that meet one of the following safe-harbor guidelines.

1. Quarterly estimated payments that equal 90% of your current year tax liability.
2. Quarterly estimated payments that equal 100% of your prior year tax liability. This gets bumped up to 110% of your previous year tax liability if your prior year income was over $150,000.

The Pay-as-you-go Loop Hole for IRA Withholding

One strategy we implement for clients whose income plan calls for distributions from pre-tax IRA accounts is to withhold taxes from their IRA distributions. Tax withholding from an IRA distribution is treated as if it were evenly withheld throughout the year, no matter when you take a distribution and withhold taxes.
This strategy can maximize the amount of time your money is working for you throughout the year and also avoid the hassle of making quarterly estimated payments.

Estimated Payment Dates

Payment Period	Due Date
January 1 - March 31	April 15
April 1 – May 31	June 15
June 1 – August 31	September 15
September 1 – December 31	January 15 of the following year.

Safe Harbor Rules

The IRS will not charge an underpayment penalty if you meet one of the two safe harbor guidelines:

Option 1: 90% of the tax you owe for the current year

Option 2: 100%* of the tax you owed for the previous tax year.

*If your prior year income is over $150,000 you need to withhold 110% of the tax you owed for the previous tax year to meet safe harbor.

Qualified Charitable Contributions

For charitably inclined retirees, a Qualified Charitable Distribution (QCD) can be a tax-efficient way to maximize your impact.

A Qualified Charitable Distribution (QCD) is a direct transfer of funds from your IRA to a qualified charity. A QCD does not get included in your adjusted gross income for the year, but if you are 72 and need to satisfy your Required Minimum Distribution (RMD), a QCD will count towards your RMD.

The recent increase in the standard deduction makes it difficult for many retirees to receive a tax benefit for making a charitable contribution and claiming it as a deduction on their tax return. A QCD is an easy way to ensure you receive a tax benefit for your charitable contribution, even if you claim the standard deduction when you file your taxes.

QCD Limitations:

- Private Foundations and Donor Advised Funds are not eligible charities for QCD Purposes.

- You cannot use IRA contributions made after age 70.5 for QCD purposes.

- Gifting appreciated securities would likely be a better alternative to a QCD, if you can claim the contribution as an itemized deduction on your tax return.

Basic Guidelines for Making Qualified Charitable Distributions

Age - You must be 70.5 to make a QCD

Amount - QCDs are limited to $100,000 per year. However, if you are married, your spouse can make their own $100,000 QCD

Eligible Accounts - QCDs can only be made from IRA accounts

Eligible Charities - QCDs can only be made to Public Charities (501 C(3))

Direct Gift - Checks must be made payable to the eligible charity

Health Care Premiums

A strategic approach to retirement distributions in your early retirement years can lower your health care premiums.

Health insurance is often the biggest hurdle to clear if you want to retire before Medicare eligibility at age 65. One health insurance option for early retirees is obtaining coverage through the Affordable Care Act.

The Affordable Care Act (ACA) provides health insurance access to anyone who is not eligible for health insurance through an employer-sponsored plan. However, the affordable part of the Affordable Care Act often depends on whether you qualify for premium assistance tax credits.

Tax Planning and ACA Premium Subsidies

Your Modified Adjusted Gross Income (MAGI) has to be below 400% of the Federal Poverty Level (FPL) to qualify for a premium subsidy. Federal Poverty Level thresholds are adjusted for inflation every year and are based on the number of people in your household. See the chart on the right for 2022 FPL for various household sizes.

There can be opportunities for a newly minted early retiree to be eligible for premium subsidies even if their pre-retirement income was well above the 400% FPL threshold. As we have previously mentioned, you will have more control over your retirement income than you had in the past. You can choose what type of accounts you distribute funds from to meet expenses. That decision directly impacts your MAGI, which in turn affects your eligibility for premium tax credits. One word of caution, you will lose access to ACA coverage if your MAGI is below 100% (138% for states that expanded Medicaid coverage) of the FPL. The sweet spot is keeping your MAGI below 400% but above 100% (or 138% for some states).

2022 Federal Poverty Lines

Persons in Household	2022 Federal Poverty Guidelines (FPG)	MMH 100% Discount (200% of FPG & Below)	MMH 75% Discount (250% of FPG & Below)	MMH 50% Discount (275% of FPG & Below)	MMH 25% Discount (300% of FPG & Below)
1	$13,590	$27,180	$33,975	$37,372	$40,770
2	$18,310	$36,260	$45,775	$50,352	$54,930
3	$23,030	$46,060	$57,575	$63,332	$69,090
4	$27,750	$55,500	$69,375	$76,312	$83,250
5	$32,470	$64,940	$81,175	$89,292	$97,410
6	$37,190	$74,380	$92,975	$102,272	$111,570
7	$41,910	$83,820	$104,775	$115,252	$125,730
8	$46,630	$93,260	$116,575	$128,232	$139,890

Tax Planning Pitfalls

A lesson in tax planning strategies wouldn't be complete without discussing the potential unintended consequences they could trigger.

Thrive Retirement Playbook
Important Tax Strategies for Retirees

Medicare Premiums

Avoid higher Medicare costs by understanding how your income affects the premiums you pay.

We will spend more time discussing Medicare in the Retirement Health Care Playbook. But for now, a basic understanding of the parts of Medicare will be all you need to understand how your income can affect premiums.

- Medicare Part A - Inpatient Hospital Coverage
- Medicare Part B - Outpatient Medical Insurance
- Medicare Part D - Prescription Drug Coverage
- Medigap - Medicare supplement insurance

Income-related Monthly Adjustment Amount (IRMAA)
Premiums for Medicare Part B and Part Dare what you need to focus on from a tax planning perspective. Both Part B and Part D premiums are subject to the Income-related Monthly Adjustment Amount (IRMAA). Premium adjustments due to IRMAA were designed to make higher- income households pay more for their Medicare coverage.

IRMAA Premium adjustments are based on your Modified Adjusted Gross Income (MAGI). However, it isn't your 2021 or 2022 MAGI that determines your 2022 Part B and Part D premiums. Whether you are subject to an IRMAA adjustment in 2022 is based on your MAGI in 2020.

Relief From IRMAA Surcharges
Luckily there are opportunities for relief from IRMAA surcharges if you experience a life-changing event. One of the most common life-changing events is retirement itself. If you notice that you will be assessed an IRMAA surcharge due to higher income in your pre-retirement years, you should consider filing form SSA-44, the IRMAA relief form. Retirement is just one of the many life- changing events that can qualify for relief from IRMAA surcharges.

Medicare 2022 Part D Premiums by Income
If your filing status and yearly income in 2020 was:

File Individual Tax Return	File Joint Tax Return	File Married & Separate Tax Return	(In 2022) Each month you pay
$91k or less	$182k or less	$91k or less	Your plan premium
Above $91k up to $114k	Above $182k up to $228k	N/A	$12.40 + your plan premium
Above $114k up to $142k	Above $228k up to $284k	N/A	$32.10 + your plan premium
Above $142k up to $170k	Above $284k up to $340k	N/A	$51.70 + your plan premium
Above $170k & Less than $500k	Above $340k & Less than $750k	Above $91k & Less than $409k	$71.30 + your plan premium
$500k or above	$750k and above	$409k and above	$77.90 + your plan premium

Medicare 2022 Part B Premiums by Income
If your filing status and yearly income in **2020** was:

File Individual Tax Return	File Joint Tax Return	File Married & Separate Tax Return	(In 2022) Each month you pay
$91k or less	$182k or less	$91k or less	$170.10
Above $91k up to $114k	Above $182k up to $228k	N/A	$238.10
Above $114k up to $142k	Above $228k up to $284k	N/A	$340.20
Above $142k up to $170k	Above $284k up to $340k	N/A	$442.30
Above $170k & Less than $500k	Above $340k & Less than $750k	Above $91k & Less than $409k	$544.30
$500k or above	$750k and above	$409k and above	$578.30

Taxation of Social Security Benefits

The most overlooked pitfall to income acceleration strategies comes from a lack of understanding as to how your Social Security benefits are taxed.

The percentage of your Social Security benefits subject to taxation depends on the amount of other income you report on your tax return. Social Security refers to this "other income" as your provisional income. The calculation to determine your provisional income is outlined below.

Provisional Income = Adjusted Gross Income plus the add-backs below:

+ Tax-exempt Interest

+ Excluded Foreign Income

+ 1/2 of your Social Security Benefits

As your provisional income rises, more of your Social Security benefits are subject to taxation until, eventually, a maximum of 85%of all benefits are included as taxable income. If your provisional income exceeds $25,000 ($32,000 for married couples), then 50% of the excess will be included as taxable income. If your provisional income exceeds $34,000 ($44,000 for married couples), then 85%of the excess amount is included as taxable income.

The key is to be aware of the potential effects a given tax planning strategy could have on the amount of your Social Security benefits subject to taxation and act accordingly.

Steps to Determine Percentage of SS Benefit Subject to Tax		
Step One	**Calculate Provisional Income**	
	Adjusted Gross Income	
	+ Tax Exempt Interest	
	+ Excluded Foreign Income	
	+ 50% of SS Benefit	
	= Provisional Income	
Step Two	**Apply Provisional Income to Thresholds**	
Single	**Married Filing Joint**	**% of SS Subject to tax**
$0 - $25,000	$0 - $32,000	0%
$25,000 - $34,000	$32,000 - $44,000	Up to 50%
Over $34,000	Over $44,000	Up to 85%

Tax Planning at Thrive

Learn how we turn
problems into possibilities.

Thrive Retirement Playbook
Important Tax Strategies for Retirees

Turning Problems Into Possibilities

The most overlooked pitfall to income acceleration strategies comes from a lack of understanding as to how your Social Security benefits are taxed.

Go From a Tax Procrastinator to a Tax Planner

Establish a Deep Understanding of our Client's Financial Lives The first step to creating a personalized tax plan is to take the time to understand all aspects of our clients' financial lives, their goals, and objectives.

Long-Term Tax Rate Analysis

Understanding your financial trajectory gives us the ability to see what your future tax picture will look like. By projecting your future income sources, we are able to implement strategies that reduce your tax liability over the long term.

Annual Income Tax Projections

The key to tax planning is identifying opportunities before it's too late to take advantage of them. By developing a current-year tax projection before the end of the tax year, we can make sure we have ample time to capitalize on any opportunity to lower your tax liability. Income tax planning is just one area that our "bi personalized solutions. g picture" approach can be leveraged to deliver.

With The Right Team In Place - Retirement Doesn't Need To Feel As Daunting As It Seems.

Most importantly, we believe you deserve to know with certainty that you are going to be OK financially. With this knowledge and the right support team leading you into and through retirement, you can relax and rest easy. The catalyst to that possibility is by thinking bigger. Far bigger about what's possible with your retirement.

Disclosure

We are an independent financial services firm helping individuals create retirement strategies using a variety of investment and insurance products to custom suit their needs and objectives. Advisory services offered through Thrive Capital Management, LLC, an SEC Registered Investment Advisory firm. Insurance products and services offered through Thrive Financial Services, LLC. The information contained in this material is given for informational purposes only, and no statement contained herein shall constitute tax, legal or investment advice. The information is not intended to be used as the sole basis for financial decisions, nor should it be construed as advice designed to meet the particular needs of an individual's situation. You should seek advice on legal and tax questions from an independent attorney or tax advisor.Investing involves risk, including the potential loss of principal. No investment strategy can guarantee a profit or protect against loss in periods of declining values. None of the information contained on this website shall constitute an offer to sell or solicit any offer to buy a security or any insurance product.

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