



How Will Taxes Impact  
My Retirement Income?

## *Proper tax planning enhances your financial security throughout retirement*

Taxes can significantly affect your retirement income, reducing the amount available for spending. Understanding how different income sources are taxed and implementing tax-efficient withdrawal strategies can help minimize tax burdens and maximize savings.

### **Taxable vs. Tax-Advantaged Income**

Retirement income falls into three categories:

- **Taxable Income:** Withdrawals from traditional 401(k)s, IRAs, pensions, and some Social Security benefits are taxed as ordinary income.
- **Tax-Free Income:** Roth IRA and Roth 401(k) withdrawals (if held for at least five years and taken after age 59½) are tax-free.
- **Partially Taxable Income:** Social Security benefits may be partially taxed depending on overall income.

### **Required Minimum Distributions (RMDs)**

Starting at **age 73** (as of 2023), retirees must take **RMDs** from traditional IRAs and 401(k)s, which are subject to income tax. Failing to take RMDs results in a steep **25% penalty** on the required withdrawal amount.

To mitigate RMD-related tax burdens, consider:

- **Roth Conversions:** Converting a portion of traditional accounts to Roth IRAs before RMDs begin to reduce future taxable income.
- **Qualified Charitable Distributions (QCDs):** Donating RMDs directly to charity to avoid taxation.

## Tax-Efficient Withdrawal Strategies

A structured withdrawal plan can reduce tax liabilities:

1. **Withdraw from taxable accounts first** to allow tax-advantaged accounts to continue growing.
2. **Tap traditional retirement accounts next** to spread out taxable withdrawals over time.
3. **Use Roth accounts last**, as withdrawals are tax-free.

## State Taxes and Retirement

Some states tax Social Security benefits and retirement income, while others offer exemptions. Before relocating, consider the **tax-friendliness** of potential states.

Proper tax planning ensures that more of your retirement savings are available for essential expenses, enhancing financial security throughout retirement.



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