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Building Savvy

San Antonio | June 2019



JEFF JENKINS

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A Homebuilding Industry Publication



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RETIRING AND YOUR TAXES



While taxes in general are a constant, tax codes are ever changing. Each year presents a different set of tax implications when it comes to retirement



By Steven Bankler, CPA

If you're planning on retiring soon, congratulations! Enjoy and celebrate, but also take some time to understand how retiring right now will influence your future tax returns.

The most recent tax changes under the Tax Cuts and Jobs Act (TCJA) involve healthcare de-

ductions, Social Security distributions, and dozens of other areas. Below are some considerations that could determine how much of your hard-earned money will stay in your pocket for your retirement years if you take the leap now.

Changes for business owners. If you're a business owner, recent changes can affect how you plan your succession and the potential sale of your business. For instance, increased depreciation write-offs and bonus depreciation could translate into reduced tax burdens for both you and the buyer of your business. And now that corporations are taxed at a relatively low 21% rate while many pass-through entities can claim a 20% qualified business income deduction, a change in entity before you sell the business might work in your favor (although making such a move right before selling is risky).

It could pay more to downsize. Now that the TCJA has capped state and local taxes (SALT) at a much lower threshold than in years past, your property

tax deduction doesn't stretch as far as it once did. Being able to fully deduct high property taxes was once an incentive for retirees who owned high-value homes to stay right where they were. Right now, however, a downsize to a more manageable property like a townhome overlooking the golf course could have added appeal.

How medical expenses factor in. As you age, there's no doubt an increasing amount of your income and savings will go toward medical expenses. Taxpayers got a break on deducting medical expenses in the past couple of years but, in 2019, the deduction kicks in at a much higher level (10% of your adjusted gross income). Even so, keep an eye on your medical expenses because, as your income decreases and healthcare costs increase, you may have enough to bypass the new, higher standard deduction.

Balance retirement benefits wisely. Receiving your full share of Social Security benefits is a delicate dance that few retirees get right. That's why we offer clients software assistance to maximize their strategies. The age for full benefits eligibility creeps up every year. At the moment, it's 66 for those born in 1954 or before. The longer you

wait to claim Social Security benefits (up until age 70), the more you receive. At the same time, however, distribution rules for IRAs and many other retirement accounts kick in at age 70½. At that point, minimum distributions must be taken or you'll face a huge tax penalty: 50% on the amount not withdrawn. Roth IRAs are an exception, however, and the TCJA has loosened the restraints for high-income earners.

There are dozens of other considerations that can help you save tax dollars as you transition out of the working world. Remember, however, that no two situations are the same. Your tax implications are unique to you the moment you retire. To save the most tax dollars, enlist the help of a tax professional before you book your bon voyage. ▼

Steven Bankler has more than 40 years of experience in the accounting industry. Steven's expertise lies in consulting, planning, tax, and asset protection as well as exit strategy services for closely held businesses. He also provides litigation support (both as a testifying expert witness and a consulting expert), business negotiations and estate planning. For past Shavano Living tax tips and to learn more about Steven Bankler, CPA, Ltd., visit www.bankler.com.