

IRA tax smarts

Your IRA most likely represents a significant portion of your long-term retirement savings, and can also play an important role in annual tax planning. Depending on your situation and goals, you might want to consider whether a Traditional IRA or a Roth IRA makes the most sense, whether your required minimum distributions can be given to charity, or whether you should accelerate your IRA distributions.

Pick the right IRA vehicle for you

The point of all IRAs is to encourage people to save for retirement. Therefore, you are discouraged (via penalties) to take any money out of these accounts until you turn 59 ½.

Traditional IRAs

- Contributions are made with pre-tax money,¹ meaning you save money by not paying tax initially
- Distributions are fully taxable as ordinary income
- Penalty for withdrawals prior to age 59 ½
- You must take your first required minimum distribution for the year in which you reach age 73 (75 for those turning 74 after 2032). However, you can delay taking the first RMD until April 1 of the following year. If you reached age 73 in 2025, you must take your first RMD by April 1, 2026, and the second RMD by Dec. 31, 2026.

Roth IRAs

- Contributions are made with after-tax money
- Distributions are tax-free
- Penalty for withdrawals prior to age 59 ½
- No required minimum distributions (RMDs)

Prior to tax time, make sure to fund your IRA, and work with your professional advisors to help you manage your RMDs, if required.

Take advantage of Qualified Charitable Distributions (QCDs)

For many years the rules allowing a tax-free Qualified Charitable Distribution, or QCD, directly from an IRA to charity have been on-again, off-again, often getting extended at the very end of the year. However, the QCD rules have finally become permanent. This is good news as it makes it easier for you to make proactive charitable contributions and minimize the tax associated with required minimum distributions from your Traditional IRA.

There are certain situations where it is more advantageous to use a QCD than to take your RMD in cash, contribute to charity, and just deduct that charitable contribution on your taxes.

- QCD filers are not required to itemize their taxes - the only way normally that you would get to deduct your charitable contributions is if you are eligible to itemize.
- For high income taxpayers, QCDs are not subject to the phase out of itemized deductions, so you get a greater benefit by contributing directly to the charity through a QCD.

In order to order to take advantage of a QCD:

- You must be at least 70 1/2 years old
- The charity must be a qualified charity
- The charitable contribution can't exceed \$111,000
- A check made payable to the charity can be sent to the account owner for delivery
- Contributions to a donor advised fund do not count as a QCD

Convert your Traditional IRAs to Roth IRAs

If you do not need, or expect to need, the annual cash flow from your RMD, it might make sense for you to consider converting your Traditional IRAs into Roth IRAs. Among the advantages are:

- Tax-free distributions
- Contributions can be made to the Roth IRA after age 70 ½

- No annual RMDs
- Roth IRAs are a tax-efficient way to transfer wealth to beneficiaries upon the account owner's death

Please talk to your Mesirow wealth advisor about whether this type of conversion might make sense for your unique situation. There are often significant current tax considerations involved.

Accelerate your distributions from your IRAs

One final tax idea to consider is to accelerate your distributions from your Traditional IRAs beyond the RMD amount. Depending on your expected taxable income in a given year, it may make sense to accelerate distributions into years when your expected taxable income is lower. This also may be appropriate in years when you have higher-than-average deductions. By accelerating distributions you also reduce the amount of future RMDs.

Mesirow Wealth Management can help you decide which of these strategies may be appropriate for you and your family.

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¹Under certain circumstances, your contribution may need to be funded with after-tax money. - Source: Mesirow Wealth Management

² <https://www.schwab.com/learn/story/reducing-rmds-with-qcds>

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