Four Principles of FI Tax Planning

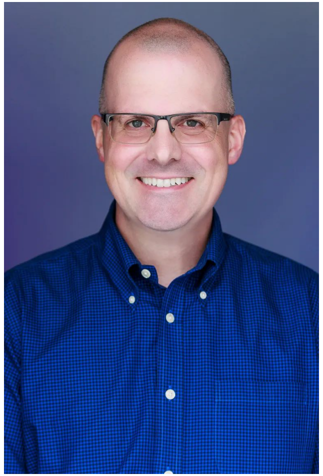
Presented by Sean Mullaney

Financial Planner

Author of Solo 401(k): The Solopreneur's Retirement Account

https://www.youtube.com/@SeanMullaneyVideos

https://www.linkedin.com/in/seanwmullaney/



Disclaimer

This slide deck, everything said during this presentation, and everything said during the question period, are for educational purposes only. It does not constitute accounting, financial, investment, legal, or tax advice for any particular individual. Please consult with your advisor(s) regarding your personal accounting, financial, investment, legal, and tax matters.

Get the Slides

https://fitaxguy.com/campfi23

Sufficiency Planning Trumps Tax Planning

Who Do You Want to Be in Retirement?

The guy able to frequently stay at the Hampton Inn and eat grass-fed, grass-finished steak with a tax problem?

OR

The guy who can barely afford to feed himself but pays very little in tax?

Sufficiency trumps tax!

Dovetailing

Remember Seinfeld? It was great when one character's storyline dovetailed with another character's storyline.

Dovetailing happens when it comes to sufficiency planning and tax planning. Those behind in sufficiency should prioritize contributions to deductible retirement accounts, which turns out to be great tax planning for their circumstances!

Implications

Your own financial future trumps any tax planning for your kids!

- 529s
- Kids' Roth IRAs

Sufficiency Planning Trumps Tax Planning

Traditional Retirement Account Balances and RMDs Will Not Crush Your Retirement

The Claim

Traditional retirement accounts will get crushed by taxes in retirement!

See https://fitaxguy.com/time-to-stop-401k-contributions/ and https://fitaxguy.com/traditional-401k-contributions-are-fine-for-most-americans-really/

The Reality

Traditional retirement accounts are relatively lightly taxed in retirement, particularly for the FI community!

- Standard Deduction
- Difference between marginal rate (contributions) and effective rate (distributions)
- Recent tax law changes continue to favor traditional retirement accounts and retirees
- Roth conversion opportunities in early retirement

Sufficiency Planning Trumps Tax Planning

Traditional Retirement Account Balances and RMDs Will Not Crush Your Retirement

Optimize for Known Tradeoffs, Not Some Mythical Perfect Balance of Accounts

Optimize for Known Tradeoffs

There’s no optimal percentage to have traditional accounts, Roth accounts, and taxable accounts.

But, there are known tradeoffs.

- Every dollar into a Roth 401(k) is a dollar that can’t be deducted into a Traditional 401(k).
- Every dollar into a Roth IRA is usually a dollar that could not have been deducted into a traditional IRA.
    - Which Roth account would you pick?

Sufficiency Planning Trumps Tax Planning

Traditional Retirement Account Balances and RMDs Will Not Crush Your Retirement

Optimize for Known Tradeoffs, Not Some Mythical Perfect Balance of Accounts

Having Everything in Roth is Risky

Having Everything in Roth is Risky

In a world of employer Roth contributions, it will be possible to have everything in Roths. Is that wise?

Having Everything in Roth is Risky

Issues:

- Premium Tax Credit Qualification Problems
- Foregoing Qualified Charitable Distributions
- Foregoing the Standard Deduction in Retirement
- Foregoing Tax Efficient Roth Conversions

For more information see https://fitaxguy.com/traditional-versus-roth-2023/

Questions?