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How the Retired can Save on their Taxes

A number of people have been searching the internet and other resources for the latest tips in stocks and in acquiring money at a faster rate. So much time is spent on earning money through any method possible and even less time is spent trying to keep that money away from the IRS. Sure, it's essential to make money, but you'll simply have to work much harder if you're doing what it takes to keep the IRS from taking as much as they can. You'll find this most relevant during retirement, the time when you think that at long last, you are done dealing with the IRS.

Social security benefits are perhaps the best example of this matter. Yes, during your employment years, you have been paying your taxes into social security. In case you've not been diligent in your tax obligation, you might have problems when you will already be receiving your social security benefits. Specifically, you might be taxed for getting this benefit. Generally, if you acquire social security benefits of at least $34,000 yearly, taxes can be imposed on 85% of this income. Obviously, this isn't an ideal situation for retirees who have previously believed that they're done dealing with the IRS.

To avoid being into this situation, you might want to convert your traditional IRA to a Roth IRA. Roth IRA will enable you to make withdrawals from the said account without having to pay taxes. Yes, there are certain requirements that you should qualify for before getting a Roth IRA but if you meet those, it's definitely worth the try. On the other hand, you will now be required to pay taxes on the entire converted amount. The amount that you will have to pay might be substantial depending on your specific situation and the extent of the IRA. Still, a number of people consider this as a better choice.

Reducing your taxable income is a wise move. You might want to sell of stocks that are both in a taxable account and are slow at appreciating instead of pulling money out of your IRA. Your capital gains will be lower and this should equate into a reduced taxable income. When you are able to subside by living on principal, then you have better odds of qualifying for the 0% tax bracket, just be careful, or else, you might face some potential IRS problems.

Impractical as it may seem, spending your money relatively sooner after you have earned it will also lessen your taxable income. If your money market account or CDs are gaining interest, it would make better sense if you spend the money you have earned on that account because whether or not you'll spend it, you'll be taxed for it. For example, the 5% earning you have for a CD worth $100,000 is better off spent rather than used in an IRA distribution. Putting it in the latter will only result to more tax liability.

Retirees have many simple money saving strategies and it's up to them to know as to how much one strategy will affect the quality of their lives. What will make more significant impact on their retirement years is the fact that they're able to save some money on their tax spending.