PAUL H. BURGESS, ATTORNEY/CPA - "YIELDING A BETTER RESULT"
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TAX AND FINANCIAL NEWSLETTER FOR RETIREMENT PLANNING

This Newsletter provides information for Retirement Planning (RP) using the Individual Retirement Account (IRA) to illustrate pension plans. RP analysis usually starts with whether you are an employee or employer. Employees usually ask, "what are my options at work?" Business owners typically ask, "what are the pension plan options to offer?" Understanding IRAs is a good place to start because its principals apply to both employees and employers as well as the Self-Employed. Four questions most people ask are: (1) How many years do I have to contribute before retirement? If you are young, don't underestimate how quickly old age arrives; (2) How much can I or should I contribute, and what are the maximum amount rules? (3) What are the pros and cons for traditional deductible vs. non-deductible Roth contributions? (4) What investments should I consider?

IRAs - THE GENERAL RULES

There are several types of IRAs, but generally, if you are Self-employed or your employer does not offer a Retirement Plan, the Traditional IRA is usually the first place to start. Its principals apply to employer sponsored plans with the main difference being that an employee usually can make larger contributions at work. Nevertheless, to contribute to any pension plan, there must be earned income (a worker[1]) reported on the tax return. Earned Income is earnings reported on a W-2 with Social Security Withholdings or earnings from a trade or business subject to Self-Employment Tax. IRA contribution limits for 2022 are $6,000 per taxpayer and $7,000 if 50 or over. IRA contributions are due on April 15th after the tax year. ***Tax Tip!*** If you have a refund on your 2022 taxes, file early in 2023 and use it to fund a 2022 IRA.

IRAs – THE MORE COMPLICATED RULES

It is possible to contribute to an IRA even if your employer offers a pension plan, but the contribution limit can be less than the general rule limits. See Table #1 (pg. 3) for those limits. Further, if you don't have a pension plan, but your spouse's employer does, smaller limits than the general limits may apply. See Table 2 (pg. 3) for those limits. These tables demonstrate how IRAs can be complicated, but if you have the cash flow, working through these table rules and maximizing IRA contributions year after year will serve you well. ***Tax Tip!*** If your spouse does not have Earned Income, they may still be eligible to contribute to a Spousal IRA.

[1] Exception: an Alimony Recipient can contribute to an IRA.

TRADITIONAL IRAs – TAXES

Suppose you are eligible for a Traditional IRA and make a $6,000 contribution, and your tax bracket is 25%. That $6,000 investment saves $1,500 in taxes ($6,000 X 25%). Accordingly, the $6,000 IRA investment only cost $4,500 ($6,000 less $1,500). Once the money is invested it grows tax free. In exchange for the current tax reduction and no annual taxes on the growth, the future withdraws are reported as income. Withdraws can be made at any time. ***Tax Tip!*** If your taxable income is low or negative, distributions can be worth reporting even if you don't currently need the money. You are required to withdraw at least a minimum amount starting at age 72, commonly known as the Required Minimum Distribution (RMD); RMD for a 72 year old is about 8% of the IRA value. If you are younger than 59½, withdraws are also subject to a 10% penalty. However, I.R.C. §72(t) provides several exceptions to the penalty. Perhaps the main five are: (1) withdraws upon disability, (2) medical expenses, (3) up to $10,000 for a 'first time' home buyer, (4) college tuition, and (5) up to $5,000 for adoption costs. A Roth IRA avoids a lot of the above rules.

THE ROTH IRA – THE GENERAL RULE

Roth IRAs are similar to Traditional IRAs, but the primary difference is when you pay the tax. The best way to illustrate the difference is an example. Suppose several years later after contributing $6,000 to the *Traditional IRA* above, and saving $1,500 in taxes, the account is worth $18,000. Further suppose you elect to withdraw the entire amount several years later; the $18,000 is reported as taxable income. But with a Roth IRA, if you had foregone the $1,500 tax savings, there are less circumstances that taxes or penalties are owed. The following table explains the Roth five year holding period and the age rules.

Roth Account Held	Younger than 59 ½?	Age 59 ½ or older?
Less than 5 years?	Taxable income, and 10% Penalty.	No Penalty, but taxable income.
More than 5 years?	Taxable income, but no Penalty.	No Penalty and No taxable income.

THE ROTH IRA – SOME PARTICULARS

Per the table above, most Roth distributions end up excluded from taxes. However, when Roth taxes are owed, the following illustration is helpful. Suppose in the above example $10,000 of the $18,000 was withdrawn by a 55 year old three years after opening the Roth. Rule Matrix #1 applies (Tax and Penalty). In that case, the $6,000 contribution is a return of capital and is not subject to tax or penalty. Thus $4,000 ($10,000 less $6,000) is reported as income and there is a $400 penalty ($4,000 X 10%). Accordingly, unlike a deductible Traditional IRA, it is important to keep track of Roth contributions. Roth's further enjoy the same Traditional IRA penalty exceptions. Unlike a Traditional IRA though, a Roth IRA does not have an annual RMD. Yet, similar to a Traditional IRA, the maximum annual Roth contribution are the same as a Traditional IRA ($6,000 and $7,000 for 2022). However, if your income is too high, a Roth IRA is not available or is limited per Table #3 (pg. 3) attached. You can get around the Table #3 limits in some circumstances with a "Back Door Roth" (BDR). BDRs work if you do not have a Traditional IRA and are particularly effective for young, high-earning taxpayers. There are other similarities and differences between a Roth and Traditional IRA, but the above are the main ones. Overall, a current Traditional IRA deduction is mighty tempting, but generally, giving up the current tax savings for a Roth is worth it if you hold it for at least five years, and especially true for long-term holds. Additionally, a major draw back to all *deductible* retirement plan contributions is the withdraws are reported as taxable income. As such, traditional retirement plans tend to "convert" favorable low tax or no tax long-term capital gains into ordinary income. ***Tax Tip!*** Roth investments typically avoid converting long-term capital gains into ordinary income. An extreme example illustrates the point. Suppose in 1997 when Roth IRAs became available you purchased $1,000 worth of Apple stock with your Roth. The value of those shares today is about $400,000. If you withdraw all the money from the Roth in 2022 no taxes are due (if over 59 ½). The same distribution from a Traditional IRA would result in perhaps $120,000 of tax. If the investment was in a regular financial account, selling all the stock at once would result in around a $75,000 long term capital gain tax.

BASIC INVESTMENT CONSIDERATIONS

If you are not comfortable selecting investments for your pension plan, we recommend seeking financial advice. We do, however, suggest perhaps starting your retirement accounts with an S&P 500 Index Fund, which tracks the largest U.S. companies and is a historically reliable choice (20-year 6.5% annual return after inflation). Target Date Funds (TDF) can also be a good choice. TDF's are hands-off investing based on your projected retirement years. TDF money managers, as your retirement age approaches, gradually decrease the risk of your portfolio by increasing bond holdings and dividend-paying stocks. More experienced investors may desire to pick specific mutual or index funds. Building a stable equities and bond portfolio will work too. We do not recommend active trading or attempting to time the market with your pension plan assets. In all events, though, when comparing investment options consider the *long-term,* start early, and contribute monthly or at least annually. After all, a retirement plan is to achieve long-term financial security and managing the taxes will yield a better result.

TABLE 1: TRADITIONAL IRA DEDUCTION LIMITS IF YOU ARE COVERED BY A WORK RETIREMENT PLAN

Filing Status	Modified AGI	Allowed Deduction
Single or head of household	$68,000 or less	Full Deduction
Single or head of household	$68,001 to $77,999	Partial Deduction
Single or head of household	$78,000 or more	No Deduction
Married filing jointly or qualifying widow/er (QW)	$109,000 or less	Full Deduction
Married filing jointly or QW	$109,001 to $128,999	Partial Deduction
Married filing jointly or QW	$129,000 or more	No Deduction
Married filing separately	Less than $10,000	Partial Deduction
Married filing separately	$10,000 or more	No Deduction

TABLE 2: TRAD'L IRA DEDUCTION LIMITS IF YOU ARE NOT COVERED BY A WORK RETIREMENT PLAN

Filing Status	Modified AGI	Allowed Deduction
Single, or head of household	Any amount	Full Deduction
Married filing jointly or separately with a spouse who **is not** covered by a plan at work	Any amount	Full Deduction
Married filing jointly with a spouse who **is** covered by a plan at work	$204,000 or less	Full Deduction
Married filing jointly with a spouse who **is** covered by a plan at work	$204,001 to $213,999	Partial Deduction
Married filing jointly with a spouse who **is** covered by a plan at work	$214,000 or more	No Deduction
Married filing separately with a spouse who is covered by a plan at work	Less than $10,000	Partial Deduction
Married filing separately with a spouse who is covered by a plan at work	$10,000 or more	No Deduction

TABLE 3: INCOME LIMITS TO ROTH IRA CONTRIBUTIONS

Modified AGI (Single)	Modified AGI (Married Filing Jointly)	Modified AGI (Married Filing Separately)	Max Contribution (under 50 years)	Max Contribution (over 50 years)
under $129,000	under $204,000	$0	$6,000	$7,000
$130,500	$205,000	$1,000	$5,400	$6,300
$132,000	$206,000	$2,000	$4,800	$5,600
$133,500	$207,000	$3,000	$4,200	$4,900
$135,000	$208,000	$4,000	$3,600	$4,200
$136,500	$209,000	$5,000	$3,000	$3,500
$138,000	$210,000	$6,000	$2,400	$2,800
$139,500	$211,000	$7,000	$1,800	$2,100
$141,000	$212,000	$8,000	$1,200	$1,400
$142,500	$213,000	$9,000	$600	$700
$144,000 & over	$214,000 & over	$10,000 & over	$0	$0

5 REASONS TO HIRE AN ATTORNEY-CPA

1. **Unparalleled Perspective:** Dually licensed Attorney-CPAs have training in multiple disciplines allowing them to view your matter from more angles than most professionals.
2. **Uniquely Qualified:** Only a small number of professional achieve dual licensing, setting Attorney-CPA's apart from their peers in both industries due to the continuing education demands of a dual license.
3. **First-Class Education:** An Attorney-CPA especially values education, as such Attorney-CPAs are up to speed on the latest developments in their industries.
4. **Best of Both Worlds:** Two professions in one professional who bridges the gap between your legal and financial requirements.
5. **A Practical Solution:** Save time and money by hiring a single dually licensed Attorney-CPA who is qualified to handle diverse business responsibilities including taxation, accounting, and legal**.**

MEET OUR TEAM

Paul H. Burgess
Attorney & Certified Public Accountant
Entering 40th Tax Season

Theresa J. Ruth
Certified Public Accountant
Entering 9th Tax Season

Mackenzie R. Martin
BSBA, Tax and Legal Assistant
Entering 3rd Tax Season

Melanie A. Burgess
MS, Office Manager
Entering 13th Tax Season
by Paul's side for all 40!

Marisa Baroni
Administrative Assistant
Entering 1st Tax Season
Welcome to the team, Marisa!

UPCOMING EVENT: 2022 OPEN HOUSE

When: Thursday, November 3rd, 2022
4:30 pm to 7:00 pm

Where: Paul H. Burgess & Co.
Attorney & CPAs
1619 South Boston Avenue
Tulsa, Oklahoma 74119

Who: Clients, Colleagues, and Prospects

What: Make yourself at home in our spacious office while you visit with our team, enjoy refreshments, and pick up a few year-end tax planning tips as we gear up for 2023.

Working your Retirement Plan today sets up options for tomorrow, including Estate Planning. Our Open House is a chance to ask us questions to help determine the most beneficial options for you and your family. We will not have a structured schedule, so feel free to come and go as you please. Hope to see you there!