MOULTON WEALTH MANAGEMENT INC.

MOULTON HOT MINUTES

SPECIALIZING IN RETIREMENT AND TAX PLANNING

420 N. EVERGREEN RD; SUITE 100
SPOKANE, WA 99216
509-922-3110

DONALD J. MOULTON
CFP®, RFC

www.moultonwealth.com

RIAL R. MOULTON
CFP®, CPA/PFS, RFC

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Last month's newsletter discussed the "Widow's Penalty". If you missed it, you can read it on our website under newsletters. When one of a married couple passes away, it's possible – and in fact probable – that the surviving spouse will have to pay more in income taxes, even while having less income.

In this newsletter we'll explore what happens when a Qualified Account (IRA, 401k, 403b, 457, etc.) is left to anyone but a spouse.

In December 2019, the "Setting Every Community Up for Retirement Enhancement" Act of 2019 was signed into law. Otherwise known as "Secure Act 1.0", among other things, it changed the time period beneficiaries (other than spouses) had to empty inherited Qualified Accounts. Before the Secure Act, a beneficiary could elect to take distributions over their lifetimes. This could be very beneficial from a tax perspective.

Let's assume a 50-year-old inherited an IRA from their parents or sibling. Under the old rules, they could elect to take distributions over their lifetimes. By doing so, the required amount they had to take out each year started at only ~3% of the account. It went up slightly each year, but only slightly. If they were still working, for example, they could shelter most of the inherited qualified account from taxes for years. They always retained the right to take out more than their minimum required amount, they just weren't forced to.

As should make sense, if an account were growing at 6% and the inheritor only took at 3%, it would continue to grow. If they continued taking the minimum amount each year, and the account kept growing, it could result in withdrawals far bigger than the account size when they initially inherited it.

The Secure Act 1.0 changed this rule. With the Secure Act 1.0, beneficiaries other than spouses, with few exceptions, must empty the account within 10 years of having inherited it.

Family tax planning is now more important than ever!

What is Family tax planning?

Considering the tax cost of qualified plans starting with the original owner, then to the surviving spouse (if the original owner is married), and finally to the heirs. Each step of the journey likely results in higher and higher tax costs.

In our experience, most people leave their assets first to their spouse, and then equally to their children. This is usually done with little tax planning.

First, a married couple is likely going to be in a lower tax bracket than a widow or widower. This is referred to as the "Widow's Penalty". Often after a spouse passes away, the survivor is left with less income, yet a higher tax bill, resulting in more hard-earned retirement money being gobbled up by the IRS.

Unfortunately, it only gets worse when both spouses pass and it goes to the children. And it does so on two levels.

1. They now have to take it out over 10 years, often while still working. This extra "income" can push them into higher tax brackets and ultimately cost even more in taxes.

2. If left equally to the children, it's likely that some will receive more "spendable money" than others.

The first is covered in our seminar on the Widow's Penalty that we will again hold in July. Call the office to get on the list, as they fill up quickly.

The second is best explained by example. Let's assume a couple has one child who is doing very well, and as such is in the 37% tax bracket, and two others who are in the 22% bracket. Each of the children receive 1/3 of a $1,000,000 IRA or $333,333. Of that amount, the successful child will net, after taxes, $209,999.79. The two other children will net $259,999.74.

That's a $50,000 difference!

Can anything be done about this? Yes, there are a few options, but planning is the key. And the sooner you implement the plan, the more successful it is likely to be.

Procrastination is not your friend.

We discuss investment risks a lot in these newsletters, because large, and relatively sudden drawdowns in your portfolio can be life changing. However, we think it's important to track all the ways you can save money.

In our seminars, and at initial, free, consultations called a "Financial Physical" we discuss the five areas most important to financial health, especially for retirees or those close to retirement.

1. Protection
2. Estate Planning
3. Income Tax
4. Retirement
5. Investments

Risk management is key for success in all of those areas.

It's not too late to protect yourself.

What is your tax plan? Attend a free seminar or call the office to hear about ours.

Yours truly,

Rial R. Moulton, CFP®, CPA / PFS, RFC
Certified Financial Planner™ professional

Donald J. Moulton, CFP®, RFC
Certified Financial Planner™ professional

P.S. Please feel free to forward this commentary to family, friends, or colleagues. If you would like us to add them to the list, please ask them to send an email with their information and permission to be added.

How much of your IRA or 401k do you want to go to the IRS?

Weekly Radio Show Saturday Morning:

8:00 AM KXLY 920 AM
Spokane and Area

9:30 AM KFLD 870 AM
Tri-Cities and Area

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SPOKANE
Quality Inn—North
Breakfast
7919 N. Division —Spokane
July 24th @ 9:30 AM

TRI-CITIES
Hampton Inn
Breakfast
486 Bradley Blvd—Richland
July 31st @ 11:00 AM

- **How employing and consistently following a defensive system could help you to a better retirement.**
- The "Widow's Tax" could be a major drain on the survivor's spendable income!
- What happens when an economic downturn makes it difficult for companies to pay back their massive debt?
- Why Buy and Hold Investing was right for the 80's and 90's yet very wrong for today.
- Will inflation eat up your assets?
- How to potentially decrease taxes on your hard earned Social Security Income
- To Roth or not to Roth?

And so much more!

COMPLIMENTARY SEMINAR

For those 50 years old and older

MOULTON WEALTH MANAGEMENT Inc.

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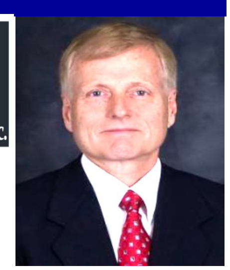

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Call to reserve a spot: 509-922-3110

Advisory services through Moulton Wealth Management, Inc., an independent Registered Investment Advisor registered with the SEC

420 N. Evergreen Rd. Suite 100
Spokane Valley, WA 99216

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How Much Are You Leaving to the IRS?

How to minimize how much you are leaving to the IRS!

Spokane	No Cost Seminars for Retirees and those close to Retirement	Richland
July 24th @ 9:30 AM		July 31st @ 11:00 AM
Details Inside		*Details Inside*