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MOULTON HOT MINUTES

SPECIALIZING IN RETIREMENT AND TAX PLANNING

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March 2026

***The “Take That,
 Uncle Sam” Rule -
 What It Means***

A recent article in **Kiplinger’s Retirement Report** discussed a strategy called the “Take That, Uncle Sam” rule of retirement spending.

The idea is simple: withdraw money in a smart order so you legally reduce taxes in retirement. The article points out that retirees face several tax pressures. Withdrawals from traditional IRAs and 401(k)s are taxed as ordinary income. Required Minimum Distributions (RMDs) generally begin at age 73 and can push income higher, whether you need the money or not. Higher income can also trigger IRMAA surcharges, which raise Medicare premiums.

We agree with Kiplinger’s main point - taxes matter in retirement. But we believe the planning opportunity often begins even earlier.

The Early Retirement Tax Window

For many retirees, the first few years after leaving work can be a valuable planning window.

During this time:

- You may not yet be collecting Social Security.
- You are not yet required to take RMDs.
- Your taxable income may temporarily be lower.

Once Social Security and RMDs begin, income often rises quickly. That can push you into higher brackets and increase Medicare premiums.

This is why retirees should **consider** converting part of their traditional IRA into a Roth IRA early in retirement, before Social Security and RMDs begin.

Why Roth Accounts Can Be So Powerful

When you convert to a Roth IRA, you pay taxes now on the amount converted. After that, the money grows tax-free and can be withdrawn tax-free if rules are met.

But the advantages go beyond that.

There are **no required minimum distributions for you**. If your spouse inherits the Roth, there are **no RMDs for them either**.

Traditional IRAs force withdrawals, currently at age 73. Roth IRAs do not. That gives you and your spouse much more control over income in later years.

The difference becomes even clearer when it comes to heirs.

Traditional IRA money is fully taxable when withdrawn. Most non-spouse heirs must empty the account within 10 years, and every dollar is taxed as income to them.

Roth IRAs must also generally be emptied within 10 years by heirs, but withdrawals are typically tax-free.

That means:

- No income tax for you
- No income tax for your spouse
- No income tax for your heirs (if rules are followed)

For families thinking about legacy planning, that can be a major advantage. **All future growth “free”.**

A Hedge Against Higher Taxes

No one knows what tax rates will look like 10 or 20 years from now. Government debt is high, and tax laws can change.

If all your savings are in traditional IRAs, every future withdrawal is taxable. If rates rise, your retirement income could be taxed more heavily.

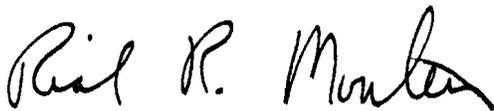
Converting part of your savings to a Roth is not just about today’s taxes. It is about **diversifying your tax buckets.**

Instead of having all your money taxed the same way, you spread it across different types of accounts. That flexibility can act as a hedge against future tax rates that could be higher.

What If You’re Charitably Inclined?

If you are 70-1/2 or older and give to charity, a Qualified Charitable Distribution (QCD) may help. A QCD allows you to send money directly from your IRA to a qualified charity. The amount also counts toward your RMD, but is not included in your

Yours truly,



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taxable income.

For those who regularly support churches or charities, this can be a very tax-efficient strategy.

Final Thoughts

The “Take That, Uncle Sam” rule reminds us that timing and strategy matter when withdrawing money in retirement.

We would add this: the early years of retirement may offer a valuable opportunity to convert some traditional IRA assets into a Roth before Social Security and RMDs increase your income.

Roth accounts offer:

- Tax-free income
- No RMDs for you or your spouse
- Tax-free benefits for heirs
- Protection against the risk of higher tax rates in the future

Retirement is about more than growing assets. It is about protecting income and managing risk. And taxes are one of the biggest long-term risks retirees face.

Diversifying your investments is important. Diversifying how your money is taxed may be just as important.

What is your plan?

Attend one of our free seminars or call the office to hear about your options.



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.

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Take that IRS!

Minimizing Taxes on Retirement Account Distributions

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
March 25th @ 9:30 AM

TRI-CITIES

Hampton Inn
Breakfast

486 Bradley Blvd — Richland
March 18th @ 11:00 AM

- ◇ Tax Planning and the New One Big Beautiful Bill!
- ◇ 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?
- ◇ *How employing and consistently following a defensive system could help you to a better retirement.*

And so much more!

COMPLIMENTARY SEMINAR

For those 50 years old and older



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**March 25th
@
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