5 WAYS

TO MAXIMIZE YOUR RETIREMENT ACCOUNTS TO SAVE ON TAXES IN 2019

Tax Season is here! Putting away your money **pre-tax** is HUGE. All working individuals should be taking advantage of this, whether self-employed or working for a company. A lot of your deductions have been phased out, especially if you live in a high-tax state like New York, New Jersey, or Connecticut.

Here at Payne Capital Management, we've developed **5 simple strategies** you should consider taking advantage of right now to maximize your tax savings in 2019.

1. **401(K)**
2. **ROTH IRA**
3. **BACK DOOR ROTH**
4. **ROTH 401(K)**
5. **HEALTH SAVINGS ACCOUNT**

1. 401K

401(k)s are probably the most common type of retirement plans since you can arrange through your employer for your contributions to be automatically taken out of your paycheck. 401(k) contributions made within the calendar year are not taxed. By deferring your taxes, these funds can grow tax-free until you withdraw.

The IRS limits the amount you can invest. In 2019, the 401(k)-contribution limit is $19,000/year. If you are 50 and older, you can contribute an additional $6,000 in what's known as a catch-up contribution, totaling $25,000. This is a significant tax savings, and the money has the potential to grow faster.

Take this simple example. If you added $19,000 a year for twenty years to your 401(k), assume your money grows at 6% a year and you are in a 24% federal tax bracket. It appears that by saving in a tax-deferred vehicle you would accumulate $1,218,711 ($1,093,963 after taxes on the earnings) vs. $1,058,956 in a taxable savings account.

2. ROTH IRA

Once you have taken our advice and maxed out your 401(k), there are still more tax advantaged investment vehicles you may be eligible for. One of the best opportunities to shelter your hard-earned cash from taxes is with a Roth IRA.

2. ROTH IRA (CONT.)

The funds in this account grow tax-free as long as they have been in the account for at least 5 years and you don't withdraw them prior to 59.5 years of age. You won't get a tax deduction each year for your contributions to your Roth IRA, but the benefit is that you can withdraw the funds tax-free after age 59.5. Furthermore, unlike most retirement plans, you are not required to take minimum distributions once you reach a certain age.

There are contribution limits with a Roth IRA. While you are limited in the amount of money you can contribute each year, the good news is that the contribution rates have increased for 2019: $6,000 if you are under age 50 & $7,000 if you are age 50 or older.

There are also income constraints that determine if you are eligible for a Roth IRA or not. If you are single and make over $122,000 in 2019, your ability to contribute to a Roth phases out. Furthermore, if you are married filing jointly, your phase-out starts at $193,000. **It is best to consult with a tax professional to determine your eligibility.**

If you make over these income thresholds, there still may be a possibility to add money to a Roth annually, which brings us to our next strategy ...

3. BACKDOOR ROTH IRA

Don't let your high income defer you from taking advantage of the Roth IRA, thanks to a little fancy footwork on the admin side, you might just be eligible.

A backdoor Roth IRA lets you convert your traditional IRA to a Roth, even if your income is too high to open one the regular way. It's a way for people with high incomes to sidestep the Roth's income limits.

Put simply: High earners can't contribute to Roth IRAs. But they can convert a traditional IRA into a Roth. Here's how.

Step 1 - Make a non-deductible contribution to a traditional IRA

Step 2 - Convert the account to a Roth IRA

Step 3 - Invest the money for a lifetime of tax free growth

Two important caveats:

1) This does not work if you already have money in an individual retirement account (IRA, SEP IRA, Simple IRA, etc.).

2) PLEASE CONSULT A TAX PROFESSIONAL OR A FINANCIAL ADVISOR FIRST

4. ROTH (401)k

Roth 401(k)s bring together the best of a 401(k) and the much-loved Roth individual retirement account. It features:

•The 401(k)'s annual contribution limit of $19,000, or $25,000 for those 50 or older

•Like the 401(k), no income rules for eligibility

• Just like the Roth IRA contributions, Roth 401(k)s are made with after-tax dollars and qualified withdrawals are tax-free

There is a good chance your tax bracket went down this year with the Tax Reform that was passed at the end of 2018. Therefore, you may be able to make a pre-tax or after-tax contribution to your retirement plan at work. Question is, are you better off with a pretax contribution or an after contribution? Working with a financial planner can help determine what's optimal for you.

Traditional 401(k) vs. Roth 401(k)

	Traditional 401(k)	Roth 401(k)
Tax treatment of contribution	Contributions are made pre-tax, which reduces your current adjusted gross income.	Contributions are made after taxes, with no affect on current adjusted gross income. Employer matching dollars must go into a pre-tax account and are taxed when distributed.
Tax treatment of withdrawals	Distributions in retirement are taxed as ordinary income.	No taxes on qualified distributions in retirement.
Withdrawal rules	Withdrawals of contributions and earnings are taxed. Distributions may be penalized if taken before age 59½, unless you meet one of the IRS exceptions.	Withdrawals of contributions and earnings are not taxed as long as the distribution is considered qualified by the IRS: The account has been funded for five years or more and the distribution is: • Due to disability or death • On or after age 59½ Unlike a Roth IRA, you cannot withdraw contributions at any time.

5. HEALTH SAVINGS ACCOUNT (HSA)

Another way to put money away tax free is a health savings account. HSAs are typically used to save for medical expenses, but some people are becoming more innovative and using them as a sort of retirement account due to their triple-tax advantage. This money is tax-free, and although there are contribution limits, once you reach age 55, you can contribute $1000 more per year to your HSA.

Not only is your HSA tax-free, but you also receive a tax deduction for it. Your HSA funds rollover to the next year if you don't use them; this is helpful if you end up having health issues later in life.

You will have to pay taxes and a 20% withdrawal fee if you use the money before age 65 for anything other than medical needs. After age 65, you can use your HSA funds for any reason, but you'll still have to pay taxes on the amount you withdraw. But if you carefully save your medical receipts, you can actually pay yourself (tax-free!) for past medical expenses—even from years ago. If you're 65 or older, healthy, and don't need to use your HSA for medical needs, you can withdraw the funds, pay taxes, and invest the money elsewhere. This is how some people are creatively using their HSA as another "retirement account." In 2019, the HSA contribution limit is $3,500 if you are single and $7,000 for family.

HSA's "Triple-Tax Free" advantage:

1. Tax-deductible contributions

2. Tax-deferred earnings

3. Tax-free distributions