June 2021

# Retirement Planning Insights

## In This Issue



## Up Front

### Client and colleague visits…and chopped brisket

I recently took a trip to Texas. It felt great to fly somewhere again as I haven't been on a plane since before the pandemic started (although I would have happily done without the hour-long delay of my flight back home…)

On my trip I met a couple clients, which was great! Zoom has become a fantastic tool to help facilitate running my retirement planning & investment management business virtually. However, it's always nice to have a physical connection with people.

Also on the trip I met Cody Garrett in person:


For those who don't know, Cody is the other moderator of my Facebook group, **Taxes in Retirement.** Also, Cody recently started his own financial planning firm, **Measure Twice Financial,** where he provides financial planning to DIY investors who want to continue to manage their own investments. I know the business will be a huge success, Cody!

I also had a chance to meet up with Roger Whitney. As I mentioned in last month's newsletter, I'm now one of the coaches in his awesome retirement membership group, the **Rock Retirement Club.**

Finally, I had one of the most delicious chopped brisket sandwiches ever, and it was from a gas station! Yes, you read that correctly. Normally I'd be embarrassed to say I enjoyed gas station food. However, this wasn't just *any* gas station; it was a Buc-ee's. Apparently Buc-ee's is an amazingly legit food place that happens to also be a gas station rest stop.

Next time I'm in Texas, I'm going to make it a point to try the pulled pork from Buc-ee's!

-Andy

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# Retirement Planning News

## Does your state tax Social Security benefits?

On May 26, 2021, the Tax Foundation published an article titled, **"How Does Your State Treat Social Security Income?"**

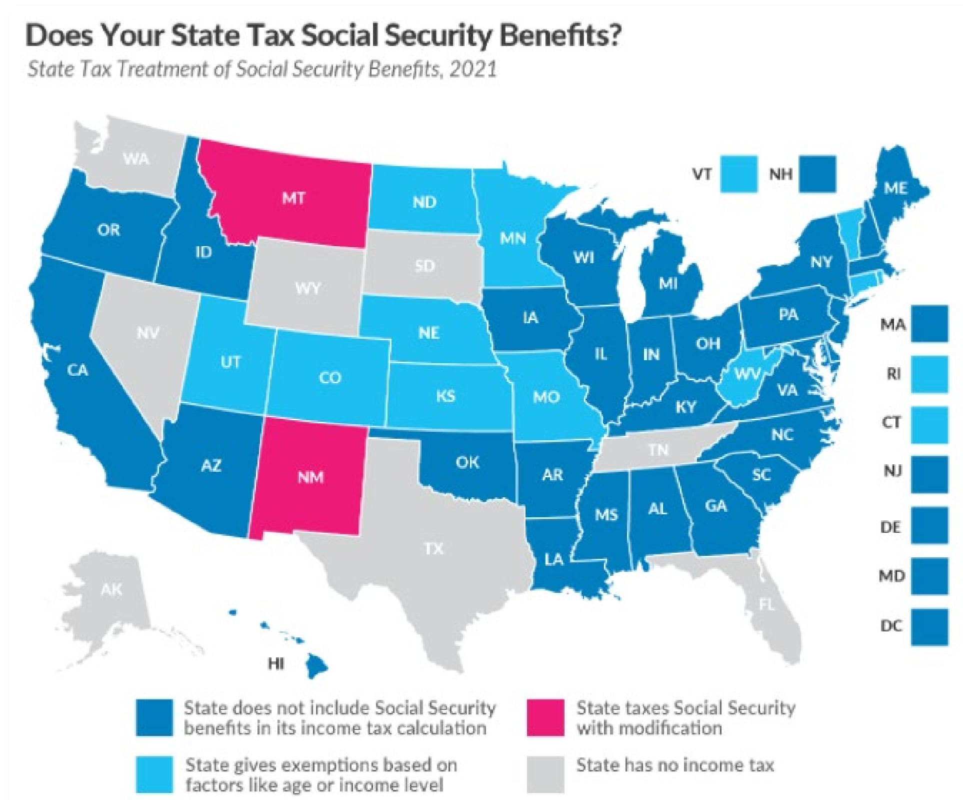
When discussing income taxes, most of the conversation is typically only about federal income taxes; state taxes are often omitted from the discussion. While federal taxes rightfully deserve the majority of tax planning attention, state tax implications also need to be considered nonetheless.

Each state has its own unique set of income tax rules, or lack thereof. For the states that do have an income tax, the rules can vary dramatically compared to those of the federal income tax system. One such area of income taxation where state treatments differ from the federal system is how Social Security benefits are taxed.

The Tax Foundation – an independent nonprofit organization that focuses on non-partisan tax research and analysis – recently summarized how each of the 50 states tax Social Security income.

As of 2021, only 13 states have an income tax system that includes potential taxation of Social Security benefits. However, some of those states have partial deductions or exclusions that may apply to Social Security.

Of the remaining 37 states, a handful don't impose ANY income taxes at all. The rest completely exempt Social Security from taxation.




While you probably shouldn't choose a state in which to retire purely for income tax reasons, knowing how the state taxes Social Security benefits is something to be aware of.

# Practical Retirement Planning

## The tax implications of giving gifts

In the eyes of the IRS, a "gift" is when you give something of value and receive nothing or something of lesser value in return.

Gifts to qualified charitable organizations can be made in unlimited amounts without anyone – neither the donor nor the recipient – having to pay tax on the gift. Furthermore, such donations are eligible for a tax deduction for the donor.

On the other hand, gifts to non-charitable organizations may subject the donor to having to pay tax on the gift (but the recipient is never required to pay tax on the gift).

The IRS does not want you to give away too much of your wealth without you having to pay tax on some of it. Once you give away more than a certain amount during your lifetime, you need to start paying tax on any additional gifts.

Thankfully, there is an annual gift "exclusion" amount, which is $15,000 for 2021. This means you can give away up to $15,000 of cash, securities or property to as many people as you want during 2021 and there are zero tax or reporting requirements for anyone involved. However, once you give away more than $15,000 to someone this year, you have to report it to the IRS.

Even if/when you have to report a gift to the IRS – via filing a gift tax return - you likely still won't have to pay tax on the gift. It's only when the amount of your cumulative lifetime gifting in excess of the annual exclusion amounts exceed the "Basic Exclusion Amount," or "BEA," that you need to start paying tax on additional gifts. For 2021, the BEA is $11,700,000.

While the current BEA may seem quite large, it's scheduled to be reduced by half starting in 2026. Furthermore, like all forms of tax legislation, it's always subject to further changes or reductions.

Additionally, the BEA is shared between gifts you give away while you're alive AND property or assets you bequeath to your heirs upon your death. To the extent the amount of your estate is larger than your remaining BEA, your estate will be subject to a federal estate tax.

Gifting can be a great way to transfer wealth during your lifetime. However, be aware of the relevant limits and requirements around reporting and taxation.

For more information, check out my recent video: