

MOOREINSIGHTS

Understanding your tax responsibilities helps you manage your retirement income more effectively. Social Security is an important component of many retirees' income, and most recipients will pay at least some tax on those benefits.

How the IRS Taxes Social Security Benefits

The Internal Revenue Service (IRS) determines your tax responsibilities using your combined income. This includes:

- Your adjusted gross income (AGI), excluding Social Security
- Nontaxable interest earnings
- Half of your Social Security income
- Half of your spouse's Social Security benefits if you file jointly

You'll pay taxes on a percentage of your Social Security benefits if your income is below a specified benchmark. Your total combined income determines how much of your benefits are taxable.

Managing Your Retirement Tax Liability

Because the IRS doesn't adjust the cutoff for taxable Social Security income, most taxpayers will owe at least some taxes on benefits. Pushing your income below that limit – \$25,000 for a single taxpayer in 2026 – usually isn't feasible. For most taxpayers, the more reasonable strategy is managing overall taxable income.

1. Defer Your Benefits

Delaying your Social Security income can be beneficial if your budget doesn't depend on it, especially if you're still working. Your benefits increase for each year you delay from age 62 through age 70, while working income decreases your payments up to a certain income.

For example, say you're 64 and plan to work until your full retirement age of 67. Your income means you'd pay taxes on 85% of your benefits, so you decide to defer. You retire at 67, but your personal savings income is enough to cover living expenses, so

you continue deferring until 70. You finally receive your maximum benefit, but since you no longer work, your taxable income is already less.

2. Convert Traditional Accounts to Roth

Traditional Individual Retirement Accounts (IRAs) and 401(k)s have required minimum distributions (RMDs) for account holders 75 and older. Those distributions add to your taxable income.

Roth IRAs and Roth 401(k)s don't have RMDs, and distributions aren't taxable income if the account holder is at least 59 1/2 and has owned the account for at least five years. You can convert to a Roth at any time. Consider consulting a financial advisor first, however, as the IRS will treat the converted funds as income.

3. Manage Tax Liability for Investments

Investments in non-retirement accounts generate taxable income, but some products have reduced tax liability. Moving some of your assets into tax-exempt funds can reduce your total combined income, but it's always best to consult with an advisor before making any major decisions.

Advisors can also offer tax-efficient strategies for selling investments, which are typically subject to capital gains taxes.

4. Optimize Charitable Giving

You may be able to reduce taxable income by making a qualified charitable distribution from your IRA. These amounts are not taxable, provided you make these donations before taking your RMDs.

Manage Your Retirement Income With Tax Planning

Income management can help you keep more of your retirement income. Consider all pieces of the puzzle, including Social Security, and never hesitate to seek professional advice.

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