# Important IRS Regulations

Planning for a retirement income is like playing a game. We call it…… **WINNING THE MONEY GAME**. Like any game, there are rules. In this game the IRS sets the rules --and so it's important for you to know what they are. Here are the fundamental rules you need to know:

***The 59&1/2 rule***…….This rule says that if you are under the age of 59&1/2 and try to withdraw any money from your qualified savings account, such as an IRA, 401K, Sep IRA, 403B, etc., you will have to pay a 10% penalty on the withdrawal plus you will have to pay an additional tax on the withdrawal, based on whatever tax bracket you are in at the time of withdrawal. For example let's say you needed $100,000 in a hurry because of a major health related expense, or your 3rd adult child going to Harvard needed this money to finish her last year in college. If your IRA account is the only place you have enough money and you are in the 35% tax bracket, your withdrawal of $100,000 would cause a 10% penalty plus a 35% tax on the withdrawal amount. The result is that out of $100,000, you get to keep $55,000 and $45,000 goes to the IRS. **Note: Freedom Financial Services can show you less costly alternatives to this situation.**

***The 70&1/2 rule***…..This rule says that if you decide to start withdrawing income from your qualified retirement account after the age of 70&1/2, you will be faced with an increased tax burden on your income because the government really wants you to start your income stream before reaching the age of 70&1/2. When you start your income stream before the age of 70&1/2 you will be subject to RMD (Required Minimum Distribution). Based on your age and your statistical lifetime span you can determine your IRS approved income stream from your qualified account. **Note: Commencing taking income from qualified retirement savings accounts after 70&1/2 may cause you to pay a 50% tax penalty!**

***Tax on Social Security***…..A lot of people think that once you start your Social Security benefits that this income stream will be tax free. The reality of this is that you can be taxed up to 85% of your social security benefit because you either have your money in accounts that produce a 1099 income statement or you are continuing to work after 65, or both. **Note: Freedom Financial Services can assist you in reducing your tax liability on social security income.**

***The 72t/IRS or 72q/IRS regulation***….This is a regulation that allows a small percentage of your qualified and non-qualified money to be withdrawn without having to pay the 10% penalty if you are under the age of 59 & ½. You will have to pay a tax on withdrawal but what's important here is where you will invest these monies. The answer should be: Into a savings account that grows tax deferred but comes out at retirement age as TAX FREE. The rule is very simple. Once you initiate the rule you must continue the withdrawal for a minimum of 5 years, or for the number of years it will take for you to reach 59&1/2, whichever is greater. The 72t&q rule is like the farmer who is given the choice of paying taxes on the purchase of his seed or paying taxes on his harvest. If you were the farmer which would you choose? By selecting a 72t or 72q option, you will pay a small tax amount on withdrawal, but following retirement, your annual tax savings will be substantial.

**For information on how these rules can affect your future financial security, we welcome you to contact us. Just visit the Contact Us page of this website. We look forward to responding with further information or by a review of your situation in person.**