



# Tax-Efficient Withdrawal Strategies for Retirement in a Shifting Tax Landscape

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Withdrawing funds from retirement accounts in a tax-efficient manner is essential to sustaining your lifestyle and preserving wealth, particularly with the Tax Cuts and Jobs Act (TCJA) provisions set to expire at the end of 2025, potentially increasing tax rates. This article outlines advanced strategies to optimize withdrawals across taxable, tax-deferred, and tax-free accounts, helping you navigate a shifting regulatory landscape while aligning with your financial goals.

## Account Types and Tax Implications

Your retirement portfolio likely includes:

- **Taxable Accounts** (e.g., brokerage accounts): Withdrawals trigger capital gains taxes, with long-term gains taxed at preferential rates (0%, 15%, or 20%, based on income).
- **Tax-Deferred Accounts** (e.g., traditional IRAs, 401(k)s): Withdrawals are taxed as ordinary income, and Required Minimum Distributions (RMDs) begin at age 73, potentially pushing you into higher tax brackets.
- **Tax-Free Accounts** (e.g., Roth IRAs, Roth 401(k)s): Qualified withdrawals are tax-free, offering flexibility to manage taxable income.

Strategic sequencing of withdrawals can minimize taxes, extend portfolio longevity, and adapt to changing tax laws.

## Advanced Withdrawal Strategies

### 1. Dynamic Withdrawal Sequencing

Adjust withdrawals annually to optimize your tax situation:

- In low-income years (e.g., before Social Security or RMDs), draw from tax-deferred accounts to fill lower tax brackets (e.g., 12% or 22% in 2025). For example, withdrawing \$50,000 from a traditional IRA in a low-income year can utilize the 12% bracket efficiently.

- In high-income years, use Roth accounts to avoid higher brackets or the 3.8% Net Investment Income Tax (NIIT), which applies above \$200,000 (single) or \$250,000 (married filing jointly) in 2025.

Annual tax projections, factoring in pensions or other income, ensure cash flow aligns with tax efficiency.

## 2. Strategic Roth Conversions

Converting funds from a traditional IRA or 401(k) to a Roth IRA incurs taxes now but allows tax-free growth and withdrawals later. Key considerations:

- **Timing:** Convert in low-income years (e.g., pre-RMDs) or during market downturns when account values are lower, reducing the taxable amount.
- **Tax Bracket Management:** Don't just stay in your current bracket—use higher brackets strategically if RMDs will push you there later. If you anticipate never being in a lower bracket due to RMDs, pensions, or other income, convert enough to enter a higher bracket now (e.g., 24% or 32%). For example, a retiree in the 22% bracket with \$50,000 of headroom before the 24% bracket might convert \$75,000, intentionally entering the 24% bracket, if projections show RMDs will place them in the 24% or higher bracket later. This maximizes tax-free Roth growth while leveraging rates that may be lower than future ones.
- **Pre-2026 Planning:** With TCJA provisions expiring, tax rates may rise (e.g., top rate from 37% to 39.6%). Accelerating conversions before 2026 can lock in lower rates.

For instance, a retiree with a \$500,000 traditional IRA might convert \$75,000 annually over five years, building a tax-free Roth pool while managing taxes proactively.

## 3. Qualified Charitable Distributions (QCDs)

For clients aged 70½ or older with charitable goals, QCDs allow up to \$100,000 annually (2025, inflation-adjusted) to be transferred from an IRA to a qualified charity. These distributions:

- Satisfy RMD requirements.
- Are excluded from taxable income, potentially lowering taxes on Social Security or Medicare premiums.
- Support philanthropy without using after-tax assets.

For example, a \$30,000 RMD could include a \$15,000 QCD, reducing taxable income while meeting charitable goals.

## 4. Capital Gains Optimization

When drawing from taxable accounts:

- Prioritize long-term capital gains for lower tax rates.

- Use tax-loss harvesting to offset gains and up to \$3,000 of ordinary income annually.
- Choose high-cost-basis lots to minimize gains.
- Monitor NIIT thresholds (\$200,000 single, \$250,000 joint in 2025).

## 5. Blended Withdrawals

Combine withdrawals from taxable, tax-deferred, and Roth accounts to smooth taxable income. For example, draw from a traditional IRA for essential expenses, Roth for additional needs, and taxable accounts in strong market years to lock in gains at favorable rates. This maintains portfolio balance and minimizes taxes.

## Navigating Regulatory Changes

The TCJA's expiration post-2025 may increase income tax rates (e.g., 37% to 39.6%) and reduce estate tax exemptions (\$13.61M in 2025 to ~\$7M). To prepare:

- Model withdrawal scenarios for higher tax rates.
- Accelerate conversions or gains before 2026 to leverage current rates.
- Stay informed on legislative changes with your wealth manager.

## Integrating with Your Financial Plan

Tax-efficient withdrawals must align with your broader goals:

- **Income Needs:** Ensure steady cash flow while minimizing taxes.
- **Investments:** Coordinate with portfolio rebalancing to maintain your target allocation.
- **Legacy:** Preserve Roth accounts for heirs or use QCDs for charitable impact.

Consider inflation, healthcare costs, and market volatility when planning withdrawals.

## Take Action

Tax-efficient withdrawal planning requires precision and adaptability, especially in a dynamic regulatory landscape. By leveraging strategies like dynamic sequencing, Roth conversions, QCDs, and capital gains optimization, you can reduce taxes and enhance the longevity of your retirement portfolio. Collaborate with your wealth manager to:

- Develop a customized withdrawal plan based on your income, assets, and goals.
- Model tax scenarios to prepare for potential changes post-2025.
- Review your plan annually to adjust for market conditions, tax laws, and personal circumstances.

With proactive planning, you can navigate the complexities of retirement withdrawals with confidence, ensuring your wealth supports your vision for the future.

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Avery Hayes is a dedicated Financial Advisor at Hayes Advisory Group with a focus on strategic planning and education. With a passion for helping clients navigate the complexities of financial management, Avery specializes in creating and implementing comprehensive plans that encompass investment management, financial planning, and tax planning. Avery's approach is rooted in a deep understanding of the financial landscape and a commitment to educating clients, empowering them to make informed decisions about their financial future. Avery also helps with educational courses taught through employer classes, classes taught for Federal employees, and The Prepare Institute, a 501©3 non-profit educational institution.

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