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Nearing retirement? 8 tax-saving considerations for 2025.

Review our checklist of tips to act on now.

Key takeaways

As you near retirement, consider tax-planning opportunities today that can help set you up for a more tax-efficient retirement.

- If your tax rate is expected to increase in the near future, consider strategies to secure the current lower rates.
- If your tax rate is expected to decrease, explore options to defer income.
- Diversifying your savings across tax-deferred, taxable and tax-free accounts can offer more flexibility and tax-efficient retirement income.

In this environment of uncertainty, taxpayers should be prepared and plan for change.

There are several strategies those saving for or living in retirement may want to consider.

The Tax Cuts and Jobs Act (the "TCJA") significantly changed the Internal Revenue Code when it was passed in 2017.

Under current law, many of those changes are set to expire at the end of 2025. While new legislation may extend current tax benefits beyond 2025, it's important to plan for change. By focusing on certainty over uncertainty, you can help protect yourself from the impacts of tax changes in retirement.

Plan today for a successful retirement

The transition into retirement for many can bring uncertainty, and to make matters worse, the future of personal income tax law may be even murkier. Not knowing if, when or which provisions of the TCJA may be allowed to expire can make planning confusing.

However, those nearing retirement can take solace in knowing that they have a partner in tax-efficient retirement income planning. With the help of a financial professional, the following tax considerations can help produce lasting tax savings and better protect yourself from an uncertain tax environment ahead.

☐ Diversify retirement savings to enhance future tax-saving opportunities

Adjusting how you save today can give you more flexibility in the future. Many investors balance their portfolio to achieve investment diversification, but tax diversification may be overlooked. Work with your financial professional to review the diversity of your savings now to achieve greater tax efficiency over your lifetime. Think of tax planning in terms of minimizing the taxes you pay over your lifetime, not just the current year. Remember that from an income tax perspective, there are 3 types of investments: taxable, tax-deferred and tax-free.

Taxable

Taxable accounts are taxed on distributed dividends or interest, or when a capital gain is realized, such as when you sell a stock at a profit. The income, interest or gain is taxable in the year it is realized.

- Investments (stocks, most bonds, CDs)
- Cash accounts (savings and money market funds)
- Taxable portion of Social Security benefits
- Profit from selling a primary home

Tax-deferred

Tax-deferred accounts are funded with pretax deductions and accumulate over time. They are generally intended to provide income in retirement. Taxation is deferred while the accounts are growing but applies when you withdraw.

- Pension
- Retirement savings
- 401(k)
- 403(b)
- 457(b)
- Traditional IRAs
- Some nonqualified annuities

Tax-free

Tax-free accounts are often funded with income that has already been taxed, and both your investment and accumulated interest can be withdrawn tax-free if requirements are met. (An exception is a health savings account (HSA), which is funded with pretax dollars and is also not taxed when used.)

- Retirement savings
  - Roth 401(k)
  - Roth 457(b)
  - Roth IRA
- Cash value life insurance
- Certain municipal bonds
- Health reimbursement arrangement (HRA)
- HSAs if used for medical expenses
- 529 account if used for the beneficiary's education

☐ Manage long-term income taxes

Usually, the standard wisdom is to defer taxes as long as possible. However, income tax planning should account for long-term forecasts. While deferring income taxes often makes sense, especially if you expect to be in a lower income tax bracket in retirement, accelerating income may actually help lower your lifetime tax bill in some situations. You may want to take more taxable income now to get to the top of a low bracket, or you may expect to be in a higher bracket in the future. You should work with a tax advisor on projecting which approach is likely to benefit you.

☐ "Bundle" your deductions

Because the 2025 standard deductions are relatively high ($15,000 for single filers and $30,000 for married couples filing jointly), it isn't worthwhile for many taxpayers to itemize deductions this year. One strategy is to accumulate deductions that you would normally take and use them all in a single year when they exceed the standard deduction. For example, to the extent possible, you may take the standard deduction in 2025 and save your charitable contributions and medical expenditures for 2026 so that your itemized deductions exceed the standard deduction that year.

☐ Plan for investment sales

In 2025, taxpayers who are married and filing jointly do not reach the highest long-term capital gain rate of 20% until their adjusted gross income ("AGI") exceeds $600,050. If you are a high-income earner and own appreciated investments that you're planning to sell, it could make sense to sell them in 2025 if you would not be subject to the top capital gain rate or if you have capital losses you want to offset. Because the wash sale rule applies only to capital losses, you could even repurchase those investments at a higher price to increase your tax basis. On the other hand, it could be beneficial to delay capital gains if you will be in a lower bracket in the future.

Don't forget about the net investment income tax (NIIT), which is which is an additional 3.8% tax that applies to certain investment income earned at an AGI of $250,000 or more for joint filers. Because interest rates increased recently, you may have more investment income than in prior years.

☐ Consider a Roth conversion

If you have a traditional IRA or old workplace qualified plan, a Roth conversion could make sense. It could be beneficial to convert some or all of your traditional IRA or old 401(k) to a Roth IRA if you expect to be in a lower income tax bracket now than in retirement. Keep in mind that this transaction will result in taxable income this year, but future income from the Roth IRA will be tax free, assuming certain distribution rules are followed. If you have a greater portion of your investments in tax-free accounts, such as a Roth IRA, you will have more flexibility in retirement to control your overall tax bill by managing your withdrawals between taxable and tax-free accounts. Below are some of the tax factors that may be relevant. Be sure to consult your tax advisor regarding your specific situation.

Traditional or Roth: Weighing the options

You may prefer a traditional IRA if:

You are in a high tax bracket and could use the tax deferral on current income

- You anticipate being in a lower tax bracket in retirement
- You (or your spouse) do not contribute to an employer-sponsored retirement plan

You may prefer a Roth IRA if:

- You seek greater tax efficiency in retirement
- You anticipate being in a higher tax bracket in retirement
- You wish to avoid paying higher Medicare premiums or added taxes on Social Security retirement benefits, both corresponding to high-income beneficiaries
- You are still many years away from retirement

Optimize retirement plan contributions

The maximum allowable 401(k) contribution for 2025 is $23,500 with a $7,500 additional contribution, if the plan allows, for taxpayers who are 50 and over. New this year: Workers attaining age 60, 61, 62 or 63 in 2025 can save even more. If you turn any of these ages, you can save up to $34,750 in your plan. And if you save in a SIMPLE IRA, your higher contribution limit is $21,750. These contributions are typically made with pretax money, lowering an individual's overall tax bill for the year, but distributions will be taxed as you take them in retirement. Even if you can't contribute the maximum amount, you should make sure you are contributing enough to take full advantage of any employer match. If you're married, it's also a good idea to review your spouse's employer matching guidelines. If one spouse gets a higher match, be sure to take full advantage of those benefits before contributing any additional dollars to the spouse's plan that has a lower level of employer matching.

If you believe your tax rate might be higher in retirement, it could make sense to redeploy all or some of your 401(k) contribution into a Roth 401(k), if your employer offers it. Your employer may match Roth 401(k) contributions, but the match may be in a pretax account that will be taxed as it comes out.

If you have compensation from employment, you may also be able to make a deductible contribution to an IRA of up to $7,000 with an additional $1,000 if you are over 50.

However, if you or your spouse are covered by a plan at work, income limits apply. Alternatively, if you are married and filing jointly, you may also be able to contribute up to $7,000 (each) to a Roth IRA if your adjusted gross income is less than $236,000.

Special considerations for high-income earners

If your income is too high to contribute directly to a Roth IRA, there are still options available to you in 2025. You can talk with your tax advisor about whether a backdoor Roth IRA or nondeductible 401(k) or IRA might work for you. Income limits for deductible contributions don't apply to nondeductible ones. This means you could make nondeductible contributions and then convert them to a Roth, but you should keep in mind that if you have a traditional IRA, converting from a nondeductible IRA to a Roth IRA could be a taxable event.

If your employer offers a Roth 401(k) and allows nondeductible 401(k) contributions, you might be able to do a backdoor Roth in your 401(k) plan too. You'll need to make sure your total contributions, including traditional 401(k) contributions and employer matches, don't exceed the limit for 2025 or that your employer plan doesn't have any additional limits.

After December 31, 2025, high-income taxpayers in most employer plans making an over-50 catch-up contribution may do so only to their plan's designated Roth account.

Furthermore, beginning in 2025, the catch-up contribution for individuals ages 60 to 63 is increased to 150% of the allowable catch-up contribution limit for that year.

☐ Consider how you withdraw retirement income to help minimize taxes

Your tax and/or financial professional can help provide guidance on minimizing your taxes owed by building a tax-efficient retirement income strategy. You'll discuss pulling from a mix of tax-deferred, taxable and tax-free income sources to maximize your standard deduction and take advantage of the lower income tax brackets. You'll consider impacts to your Social Security retirement benefits that can be taxable if you have high levels of income in retirement, or your Medicare premiums that are also increased when your adjusted gross income is above certain thresholds.

Retirees should seek help to build a tax-efficient withdrawal strategy. Doing so can keep taxes as low as possible, prolong the life of savings and even leave more to beneficiaries.

☐ Make sure you take required minimum distributions

Your first required minimum distribution (RMD) from your IRA or qualified plan must be taken by April of the year following your 73rd birthday. If you are age 73 or over, still working and do not own 5% or more of the business, you might not be required to take RMDs from your employer-sponsored plan. However, you must still take RMDs from IRAs and plan accounts from previous employers, regardless of whether you are still working. You do not have to take lifetime RMDs for designated Roth accounts in employer-sponsored retirement plans, thanks to SECURE 2.0 legislation. Remember that RMDs may affect Medicare costs and other taxes.

If you are 73 or older and would like to donate more to charity, remember that up to $108,000 in 2025 can be distributed from your IRA to a charity, and it can be used to fully or partially satisfy your RMD. This qualified charitable distribution (QCD) must be made directly from your IRA to the charity to avoid inclusion in income, and it must be made to a qualified public charity. QCDs to private foundations and donor-advised funds are not permitted.

As of 2025, you can also make a one-time QCD to a charitable remainder trust of up to $54,000.

It's important to stay proactive and adaptable in your tax planning. Changes in tax laws can significantly impact your financial strategy, so planning ahead with your tax advisor or financial professional can help you navigate these shifts and optimize your tax outcomes.

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NFM-21505AO.4 (11/24)