



IN A RISING INTEREST-RATE ENVIRONMENT, DEFERRAL CAN HELP CLIENTS WHO ARE HIGH EARNERS MANAGE THE IMPACT TO THEIR 1099s

Due to rising interest rates, some taxpayers could see higher ordinary income—and a higher tax bill.

Tax drag can affect the rate at which invested assets grow. With interest rates rising, investors may be facing higher federal taxes and potentially be subject to the Net Investment Income Tax (NIIT) as well as hit threshold limitations for Social Security taxation and Medicare parts B and D penalties.

Deferral can allow clients to time and control the recognition of gains, which, in turn, can help reduce or smooth out tax costs.

Examples of clients who might benefit from deferral:

- **Higher income now, less income in retirement.**

In their peak earning years, some couples are high-income earners now, but expect to need less income in retirement. For this group, tax deferral can reduce tax drag during the peak earning years. The ability to control distributions of ordinary income in retirement can be managed. If qualified accounts are already maxed out, a deferred annuity may be another option to consider. *(Remember that Roth accounts can produce tax-free distributions for this group.)*

- **Retirees looking for tax management.** Many retirees want to invest but are reluctant to add to their 1099s. For this group, additional tax deferral from a tax-deferred annuity may help defer current taxation of any growth of the asset.

(For those with a desire for growth and concerns about the market, some tax-deferred variable annuities offer principal or income protection for an additional cost.)

Some common sources of deferral:

- **Employer-sponsored retirement plans.** Many clients are familiar with the deferral offered by employer-sponsored plans, such as [401\(k\)s](#), [403\(b\)s](#), [457\(b\)s](#), [SEP-IRAs](#), and [SIMPLE IRAs](#). These plans offer clients tax-deferred growth. For those with large qualified accounts and/or other significant resources, there can be one downside: The IRS requires annual required minimum distributions (RMDs) after the account owner reaches age 73. That can mean unneeded additional ordinary income is distributed at an inopportune time.

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- **Roth accounts.** Roth IRAs and [designated Roth accounts](#) in employer plans such as Roth 401(k)s, [Roth 403\(b\)s](#), and [Roth 457\(b\)s](#) offer tax-deferred growth, as well as tax-free distributions (assuming the accounts qualify under the Internal Revenue Code (IRC)). Qualified tax-free distributions do not impact modified gross income thresholds and will not negatively impact Social Security provisional income calculations or Medicare Income Related Monthly Adjustment Amount (IRMAA) penalties. While the designated Roth accounts require RMDs through 2023, they will be eliminated effective 1/1/24. Roth IRAs offer the additional benefit of no RMDs for account owners.

- **Tax-deferred annuities.** For some clients, tax-deferred annuities offer an additional way to delay taxes on invested assets. This is particularly the case if they are not currently living off their investment income and would like to control timing of income recognition for tax purposes. While qualified accounts typically should be funded first, some clients will benefit from this option. *(Remember that access to funds in tax-deferred annuities, like qualified accounts, is limited before age 59½.)*

Except for qualifying Roth accounts, remember that the distributions from the above accounts are considered ordinary income and taxed at those rates, which are usually higher than capital gains rates.

This may be an opportune time to check your clients' 1099s and determine if deferral may be appropriate. With the potential for rising tax rates in today's environment, deferral may help manage tax drag and help more clients reach their goals.

Additional Resources and Links

[The Power of Tax Deferral](#)

[IRA Rollovers and Lifetime Income: A Game Plan](#)

[IRA and Qualified Plan Contribution Limits Update](#)

[Time for a Strategic Roth Conversion?](#)

For more information about retirement planning,
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