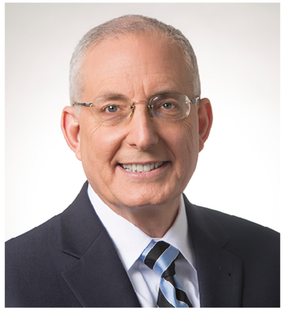
ED SLOTT'S
IRA ADVISOR
November 2020
Tax & Estate Planning for Your Retirement Savings



WHAT'S INSIDE?

Retirement Tax Form Icons

A multitude of various IRS documents with an infinite combination of letters and numbers drift through the retirement galaxy. At times it can be difficult to tell if a discussion is about taxes or Star Wars droids. *C-3PO? SSA-44? K-2SO?* (Hint: Two of those are robot names.)

As some of the robots have become headliners in the movie saga, so too have certain tax forms become icons of the retirement world. Yes, we will run into an occasional BB-8 or 590-A, but it is the R2-D2s and 1099-Rs that we must be familiar with to understand the full story.

Form 1099-R

Form 1099-R, "Distributions from Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc.," is the A-list-celebrity retirement tax document. It is sent to recipients of all IRA and Roth IRA distributions, but not for direct IRA-to-IRA transfers. The form is also used for all employer plan distributions, whether they go to the plan participant or directly to another retirement plan or IRA.

A copy of the form is provided to the IRS, so it is imperative that it be accurate and included properly on the tax return. Form 1099-R must be issued by January 31 of the year following the distribution.

Since Form 1099-R covers multiple types of distributions (disability, early withdrawals, net unrealized appreciation, prohibited transactions, excess contribution withdrawals, etc.) and includes a multitude of different possible codes, it must be thoroughly inspected upon receipt. Errors are not uncommon. Be sure it is filled out correctly, reflecting the transactions that were actually completed.

For those who do qualified charitable distributions (QCDs) or take coronavirus-related distributions (CRDs), be aware that although the amount of these distributions will be reported on Form 1099-R, there is no 1099-R code signifying either. As such, QCDs can easily be missed on a tax return, resulting in an erroneous taxable IRA distribution. It is up to the taxpayer to properly identify a QCD or a CRD.

Form 5498

The "partner form" to 1099-R is Form 5498, "IRA Contribution Information." While the 1099-R indicates when IRA and work-plan dollars have been distributed, Form 5498 details when funds have been rolled over and when new monies have been contributed to an IRA, Roth IRA, SEP IRA and/or SIMPLE IRA plan. (This includes recharacterized contributions.)

Form 5498 also reveals to the IRS which IRA owners are taking required

Executive Summary

Retirement Tax Form Icons

- Form 1099-R is sent to recipients of all IRA and Roth IRA distributions, but is not used for direct IRA-to-IRA transfers. It is also used for all employer plan distributions, whether they go to the plan participant or directly to another retirement plan or IRA.
- Form 5498 details when funds have been rolled over and when new monies have been contributed to an IRA, Roth IRA, SEP and/or SIMPLE plan.
- Common uses of Form 5329 are to pay the 10% penalty on early distributions from an IRA or company plan and to pay the 6% penalty on excess contributions to IRAs, Roth IRAs, ESAs, Archer Medical Savings Accounts, HSAs and ABLE accounts.
- A frequent use of Form 8606 is to track basis in an IRA so that, upon distribution, those dollars will come out tax-free.

Navigating 72(t) Payments

- The general idea of a 72(t) payment plan is that it allows IRA owners to tap into their IRAs before 59½ without a 10% penalty.
- A 72(t) plan applies only to the IRAs selected, and payments must continue for at least five years or until age 59½, whichever period is longer.
- The IRS describes three allowable payment methods: the required minimum distribution method, the amortization method, and the annuity factor method.
- If a 72(t) payment plan is modified, the 10% early distribution penalty is applied to the distribution that modifies the payment stream and retroactively to all distributions taken under the payment plan before age 59½.
- A modification of a 72(t) could include missing a payment or taking more or less than the required amount. Also, funds cannot be added to the account either through rollovers or contributions.

Retirement Tax Breaks for the Military

- Some individuals receive a military pension that's based on age or length of service. Such pensions are subject to federal income tax, but since these pensions are not considered earned income, there are no Social Security or Medicare taxes to pay; also, many states exempt military pensions from income tax.
- Depending on the extent of VA Disability (greater than 50%), a veteran can receive both military and VA Disability compensation concurrently.
- After leaving the service, a variety of benefits are available to former military personnel. Assuming the client served for at least 24 continuous months of active duty and did not receive a dishonorable discharge, these benefits will be tax-free.
- If pensioners participate in a federal education or training program for veterans, they may get tax-free allowances for tuition, housing, etc.

minimum distributions (RMDs). The form includes a box that the IRA institution must check if the owner is subject to such payouts. While IRA custodians are required to notify the IRS of all IRA accounts taking RMDs, they do not have to report the actual amount. (If not reported on Form 5498, a separate statement showing the RMD amount must be sent to the IRA owner by January 31.)

Form 5498 is not filed with a tax return. It is for information reporting only. The IRA custodian must furnish Form 5498 to both the account owner and IRS by May 31 of the following year.

In addition to the aforementioned items, Form 5498 is also used to report information on IRA (including SEP and SIMPLE IRA) values at year's end, the fair market value of certain hard-to-value assets, as well as Roth conversions.

Example 1: Luke was displaced from his job as Jedi Master and wanted to roll over his 401(k) plan to his IRA. On the plan's distribution form, Luke requested a direct rollover to his IRA at Cantina Bank. The full balance of Luke's IRA was issued in a check made payable to "Cantina Bank, FBO Luke."

He will receive a 1099-R from the plan showing the distribution and a 5498 from Cantina Bank showing the corresponding rollover. Luke will owe no taxes on this transaction.

Form 5329

Form 5329, "Additional Taxes on Qualified Plans (Including IRAs) and Other Tax-Favored Accounts," is the "honesty form." When a taxpayer makes a mistake and realizes it after the deadline (typically October 15 of the year after the error), Form 5329 is how to raise a hand, admit guilt, and pay the penalty.

A common use of this form is to pay the 10% penalty (technically referred to as an "additional tax") on early distributions from an IRA or company plan. Certain distributions from Coverdell education savings accounts (Coverdell ESAs), qualified tuition programs (QTPs) and 529A Achieving a Better Life Experience (ABLE) accounts are also covered by Form 5329, as is the 25% penalty on certain early distributions from a SIMPLE IRA.

Form 5329 is also used to pay the 6% penalty on excess contributions to IRAs, Roth IRAs, Coverdell ESAs, Archer Medical Savings Accounts, health savings accounts (HSAs) and ABLE accounts.

Example 2: Leia, age 55, contributed $8,000 to a Roth IRA in 2019, but she was only eligible to contribute $7,000. She did not realize her mistake until after October 15, 2020. Since she missed the deadline to correct the error without penalty (and as an honest princess), Leia withdrew the excess, filed Form 5329, and paid the 6% "additional tax" of $60.

Missed RMDs and the corresponding 50% penalty are also declared on Form 5329. In these situations, either as the original account owner or beneficiary, the missed RMD should be taken as soon as possible. Form 5329 should be filed to report the missed distribution and to calculate the penalty amount.

While 50% is a steep price to pay, note that the penalty can be waived for good cause. (See the April 2019 issue of *Ed Slott's IRA Advisor* newsletter for step-by-step instructions on how to properly complete Form 5329 when a penalty waiver is pursued.)

Form 5329 can be filed with a tax return or as a stand-alone return. If it is not filed, the statute of limitations does not start to run, and the IRS can go back indefinitely to assess penalties.

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Form 8606

A frequent use of Form 8606, "Nondeductible IRAs," is when a nondeductible contribution is made to an IRA. Form 8606 must be filed to report the basis amount so that, upon distribution, those dollars will come out tax-free.

If the form is not filed, these after-tax contribution dollars may be taxed a second time upon withdrawal. If an individual fails to timely file the form in the year of the after-tax contribution, it can be filed later to retroactively claim the basis. The IRS has indicated that it will process a stand-alone Form 8606. This is true even if Form 8606 is filed beyond the normal three-year statute of limitations for claiming a refund. Just be sure to have substantiating evidence to prove the basis amount should the IRS inquire.

Basis from IRAs could include both nondeductible IRA contributions and after-tax funds rolled over from company plans. While it is relatively easy for IRA owners to track their basis, it can become more difficult for beneficiaries of inherited IRAs.

Basis carries over to beneficiaries, but without adequate records, a beneficiary will be unable to determine whether a contribution was made before or after-tax. It is imperative for all individuals who inherit an IRA to investigate the existence of basis. If adequate records of basis do not exist, contribution records can be reviewed against personal tax returns to determine whether a deduction was taken for a particular contribution.

Be aware that tracking basis is solely the responsibility of the taxpayer — *not the IRS or even the IRA custodian.* If Form 8606 is not on file, then it will be more difficult to claim basis in an IRA.

Form 8915-E

Form 8915-E, "Qualified Disaster Retirement Plan Distributions and Repayments," has yet to be released, but the IRS has promised to deliver it by year's end. It will be used to identify a CRD. IRS Forms 8915-A through D have been used for other disasters in previous years. Since CRDs did not exist until 2020, we cannot be entirely sure what the new form will look like, but we anticipate it will be similar to the previous 8915 format.

As there have been thousands of CRDs taken in 2020, it is important for advisors to familiarize themselves with this form, in addition to all the other iconic forms discussed in this article, so as to better assist clients.

May the forms be with you! ■

Navigating 72(t) Payments

The year 2020 has brought challenging economic times for many. Unemployment is high and bills are piling up. These realities have forced some to look for sources of extra cash.

For many individuals, their IRA is their biggest, or maybe only, savings available. It may be tempting to consider tapping into it in these difficult times. Although distributions taken before age 59½ are generally subject to a 10% early distribution penalty, there is an exception for a series of substantially equal periodic payments, often called 72(t) payments. While this may be a good opportunity to access IRA savings penalty-free, the risks can be high.

How a 72(t) Payment Plan Works

The general idea of a 72(t) payment plan is that it allows IRA owners to tap into their IRAs before age 59½ without a 10% penalty if they commit to a plan of distribution according to the very specific rules set out in Section 72(t)(2)(A)(iv) of the Internal Revenue Code and IRS guidance laid out in Revenue Ruling 2002-62.

A 72(t) payment plan can also be set up from a Roth IRA, but usually this is not helpful unless it is within five years of a conversion or the majority of the Roth IRA consists of earnings that are not yet qualified.

The key concept in creating efficient 72(t) payments is to produce the largest possible 72(t) payment from the smallest amount of retirement funds. When a 72(t) plan is set up, it applies only to the IRAs selected. This creates a planning opportunity.

Prior to establishing the 72(t) schedule, IRA assets can be strategically transferred among the individual's IRAs. This will allow distributions from the IRA affected by the 72(t) schedule to be in more desirable amounts. (This strategy of "splitting IRAs" assumes sufficient IRA funds exist.) Other IRA funds can remain outside the 72(t) plan to allow for flexibility and access to IRA funds without disturbing the 72(t) payment plan.

To qualify as a 72(t) payment plan, the payments must continue for at least five years or until age 59½, whichever period is longer. Once the payments start, they cannot be modified during the payment term except for very limited exceptions.

In the landmark court case, *Arnold v. Commissioner, 111 T.C. 250 (Tax Ct. 1998)*, the Tax Court provided guidance on exactly how the five-year period is to be determined for 72(t) payments. The five-year period ends on the fifth anniversary of the first distribution date; it does not end on the date of the fifth annual distribution.

To qualify as a 72(t) payment plan, the payments must continue for at least five years or until age 59½, whichever period is longer.

Three Methods to Calculate 72(t) Payments

IRS Revenue Ruling 2002-62 describes three allowable methods:

1. Required minimum distribution (RMD) method
2. Amortization method
3. Annuity factor method

Can other methods be used beyond these? The IRS does not specifically say no, but venturing beyond the three "blessed" methods without receiving a ruling from the IRS on the proposed method would definitely be taking a risk.

The RMD method is calculated in the same manner as RMDs. This method is not very popular, because it will generally produce the lowest annual 72(t) payment — *exactly what most individuals looking to take 72(t) payments do not want.*

The amortization method or the annuity factor method is recommended if an IRA owner is looking for consistently higher annual withdrawals. For either the amortization method or annuity factor method, a calendar or fiscal year can be used.

The IRS says that the balance used to calculate 72(t) payments must be determined "in a reasonable manner based on the facts and circumstances." "Reasonable" does not always mean choosing the best possible date to meet an IRA owner's needs each year.

Both the amortization and annuity factor methods allow the use of a "reasonable" interest rate to calculate the payment schedule. A reasonable interest rate is now defined as "any interest rate that is not more than 120 percent of the federal mid-term rate for either of the two months immediately preceding the month in which the distribution begins."

The Recapture Penalty

If a 72(t) payment plan is modified, the very harsh recapture penalty will apply. The 10% early distribution penalty is applied not just to the distribution that modifies the payment stream, but also retroactively to all distributions taken under the payment plan prior to age 59½. That could mean that the penalty would be owed for many years of distributions.

Example 1: Olaf, the IRA owner, is 45 years old when he begins his 72(t) payment plan. He must continue the chosen withdrawal plan for 14 years until he reaches age 59½. Assume Olaf is now age 57 and has been sticking to the plan for the past 12 years, having withdrawn $10,000 per year (or $120,000 in total) during that time.

If Olaf decides to withdraw $50,000 instead of the usual $10,000, Olaf has blown his exemption from the 10% penalty. Because the 10% penalty is triggered retroactively, he will owe the 10% penalty on $120,000 of previous withdrawals, plus the $50,000 withdrawal from the current year. He will owe $17,000 in penalties ($170,000 of withdrawals x 10% = $17,000). This penalty, plus interest, is due all in the year of the modification.

What is a Modification?

A modification of a 72(t) payment could include missing a payment or taking more or less than the required amount, even if the difference is small. Revenue Ruling 2002-62 makes it clear that no matter which 72(t) method is used, any change in the account balance, other than by regular gains and losses, will be considered a modification and the 10% penalty will be triggered. This means that clients cannot add funds to the account either through rollovers or contributions.

However, unlike the amortization and annuity factor methods, the RMD method allows clients to redetermine the retirement account balance with each year's 72(t) payment. This is not a modification, because this is the way the RMD method works and it is an acceptable method.

As previously mentioned, the balance must be determined "in a reasonable manner based on the facts and circumstances." You can use either the balance on the December 31 prior to a client's first withdrawal or the value on the actual date of the withdrawal.

For the first distribution (using the RMD method) you can use any reasonable value between the prior December 31 and the payment date.

For future distributions under the RMD method, you must use the value on the prior December 31 date or the value on a date within a reasonable time of the actual distribution.

Note that given these tough economic times, clients may ask if there are any special breaks for those taking 72(t) payments in 2020. The CARES Act waiver of RMDs does not apply to 72(t) payments. 72(t) payments are not RMDs, even if they are being calculated using the RMD method.

These schedules must continue as-is for 2020. Any modification or failure to take the required payment could result in retroactive penalties. Some good news, however, is that taking a coronavirus-related distribution (CRD) under the CARES Act is not considered a modification of a 72(t) payment plan.

> Some good news, however, is that taking a coronavirus-related distribution (CRD) under the CARES Act is not considered a modification of a 72(t) payment plan.

Example 2: Clyde, age 56, has been taking 72(t) payments from his IRA for a few years. He was recently diagnosed with COVID-19 and needs additional funds to pay his bills.

Clyde can take a CRD from his IRA this year, and that will not be considered a modification of his 72(t) payments.

Are there other situations where 72(t) payments can change, but it is not considered a modification? Yes, but these situations are very limited. If the payment schedule is stopped during the 72(t) term due to death or disability, no 10% penalty will apply.

Also, there is relief for decimated retirement accounts. If the account balance is zero, IRS has a heart. If the client cannot continue his 72(t) payments, IRS will not consider this a modification.

Additionally, a client can switch to the RMD method from either the amortization or the annuity factor method as long as it is a one-time irrevocable switch.

Example 3: Sabrina, age 58, has 2 years remaining on her 72(t) schedule, which was originally calculated using the amortization method. She has been diligently taking her annual distributions for the past three years.

However, Sabrina no longer needs the cash as she has found a higher paying job. Sabrina cannot stop the 72(t) payments altogether. That would be a modification and result in penalties. However, she can at least reduce her final 2 annual payments by making a one-time switch to the RMD method.

If a client wishes to convert the entire balance of a 72(t) traditional IRA to a Roth IRA during the 72(t) term, he will remain exempt from the 10% penalty, as long as the 72(t) payments continue unchanged from the Roth IRA. That is not considered a modification. However, 72(t) payments cannot be converted to a Roth IRA, because only eligible rollover distributions can be converted to a Roth.

In numerous private letter rulings (PLRs), the IRS has ruled that a taxpayer's transfer of a portion of her IRA due to a divorce and a subsequent reduction in the value of 72(t) payments would not result in a taxable transfer or a modification of the 72(t) payment schedule (PLR 201030038, PLR 200214034, and PLR 200717026).

In the 2009 decision of *Benz v. Comm'r of Internal Revenue, (U.S.T.C. 2009)*, the Tax Court ruled that a 72(t) payment plan was not modified when an additional distribution that qualified for the exception to the 10% penalty for higher education was taken from the same IRA that was making distributions under a 72(t) plan.

This case, however, appears to be an outlier, because no subsequent courts have followed it. Therefore, it should only be used as a last resort argument in a situation where an individual has inadvertently already modified a 72(t) plan by taking a distribution that would qualify for another exception to the 10% penalty.

Mistakes do happen. IRA owners taking 72(t) payments have asked the IRS for mercy in many PLRs. The results are a mixed bag. In some PLRs, particularly when the payments were affected by a mistake of the custodian, the IRS has ruled that no modification occurred (PLR 200503036 and PLR 200929021). Others were not so lucky (PLR 200720023 and PLR 200634033).

If 72(t) payments are necessary, the best plan of attack is to be extremely careful in order to avoid the time, expense, and uncertain fate of a PLR.

Proceed with Caution

In tough times, as many have experienced throughout 2020, 72(t) payments may seem like just the right answer, but proceed with caution!

Often, those who are interested in 72(t) believe they can simply choose the amount they would like to take from their IRA each year. It's not that easy.

Many are not aware that 72(t) is a long-term commitment. IRA owners need to be sure they want to be locked into the payment plan for long durations. Because the calculations for 72(t) payments are so precise and because they must go on for such a long time, it's easy for mistakes to happen and the penalties are harsh.

If 72(t) payments are necessary, the best plan of attack is to be extremely careful in order to avoid the time, expense, and uncertain fate of a PLR.

If an account owner understands all of the risks and limitations, a 72(t) payment plan can be a good strategy, provided the very stringent IRS rules are diligently followed for the entire length of the payment schedule.

Retirement Tax Breaks for the Military

Guest Expert

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Advisors often must weigh risks and potential rewards, and that is especially true when working with clients who have served or who now serve in the United States military. Such clients have put their health — *even their lives* — in peril while serving their country, and the rewards for doing so include retirement-related tax benefits.

Pension Income

Some clients receive a military pension that's based on age or length of service. Such pensions are subject to federal income tax. The good news here is that these pensions are not considered earned income, so there are no Social Security or Medicare taxes to pay.

What's more, military pensioners are offered the opportunity to participate in the Survivor Benefit Plan (SBP), which will pay a spouse or other eligible beneficiaries a lifelong, inflation-adjusted annuity up to 55% of the decedent's pension. There is a cost for choosing SBP, but the premiums come from gross retirement pay, reducing taxable income.

Although Uncle Sam taxes military pensions, that's not true for all state tax collectors. Many states exempt military pensions from income tax, in whole or in part. If a client receiving a military pension is planning to relocate in retirement, this tax treatment is one factor to consider when choosing a new home.

Military Disability Retirement

Some clients may be eligible for military disability retirement payments if a medical exam indicates that a service-related illness or injury has resulted in a decreased ability to earn income.

The severity and expected duration of the disability will determine the amount of the payments, which are excluded from taxable income.

What if a military pensioner is also eligible for disability retirement benefits? The latter payments may offset the basic pension, based on the severity of the service-connected condition. Depending on the extent of VA Disability (greater than 50%), a veteran can receive both military and VA Disability compensation concurrently. (For certain clients, it could make sense to maximize untaxed disability payments, even if that reduces the military pension.)

In some cases, a client may have retired from the service, started to collect a taxable pension, and subsequently received notice that military disability payments are merited. If so, the veteran can file amended tax returns, converting some previously taxed income to retroactive untaxed disability payments.

Property Tax

Many states offer some type of property tax exemption for veterans. New York, for example, has three categories of property tax breaks for specific categories of vets, including those who were on active duty during the last 30 years. For veterans who qualify, the reduced value of their permanent residence will be reduced by 15% or more, for property tax purposes. School taxes may also be reduced.

Disabled veterans may qualify for even greater tax benefits. In Indiana, for example, a veteran who is age 62 or older with a service-related disability of at least 10% may receive a property tax exemption that goes up to more than $35,000 on his or her primary residence.

In Utah, a veteran who is 50% disabled may receive an exemption in excess of $120,000. Some states also offer vets exemptions from motor vehicle-related fees. Again, advisors should suggest to veterans who are considering relocating in retirement to look at available property tax breaks before moving.

Education and Other Veteran Benefits

After leaving the service, a variety of benefits are available to former military personnel. Assuming the client served for at least 24 continuous months of active duty and did not receive a dishonorable discharge, these benefits will be tax-free.

Many of these veterans' benefits, such as the GI Bill and other education programs, will appeal largely to younger people who are far from retirement. That said, some veterans retire from the military while in their 40s or 50s, with plans to pursue other careers while collecting a military pension.

Advisors should also be aware that veterans may be eligible to transfer their GI Bill benefits to their dependents to help pay for college, graduate school or training. Specific criteria must be met to transfer benefits, but these benefits can help pay for a spouse's or a child's college tuition if the veteran does not need them.

> Advisors should also be aware that veterans may be eligible to transfer their GI Bill benefits to their dependents to help pay for college, graduate school or training.

If pensioners participate in a federal education or training program for veterans, they may get allowances for tuition, housing, etc. Such allowances are received tax-free.

Moreover, some retired vets may qualify for federal programs to modify or purchase homes to accommodate a service-related disability. A residence with wheelchair access might be necessary, for instance. Similarly, vehicle modifications may be required, as a result of a disability. Any grants received via such programs won't be counted as taxable income.

Planning Ahead: Combat Pay

Tax benefits can also play a role in retirement planning for active duty service members. For example, if someone spends any part of a month in an officially declared combat zone, that month's salary will be tax-free.

Current combat zones are:

- Sinai Peninsula
- Afghanistan Area
- Kosovo Area
- Arabian Peninsula

Not only is this income tax-free today, it can be invested into a Roth Thrift Savings Plan (TSP) so that all future growth on it is also tax-free. If the deployed pay exceeds the contribution limit for a Roth TSP, the excess can be invested into the traditional TSP as a tax-exempt contribution.

By reducing the taxes owed, individuals can free up extra money in their budget, which can be re-directed to retirement funding or other goals. Advisors informed that a client will be serving in a combat zone can calculate the amount of tax-free income and develop a plan for how much to invest.

Even if they're not stationed in a combat zone, military personnel not living in government quarters receive a housing allowance, tax-free. Amounts vary by rank and location: in the Philadelphia area, for example, senior officers with dependents get over $2,000 a month.

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If the amount spent on housing is less than the allowance, the overage might also be invested. Money that wasn't taxed when received can remain untaxed forever, including years of possible compound earnings.

Money that wasn't taxed when received can remain untaxed forever, including years of possible compound earnings.

An additional consideration is a program called the DoD Savings Deposit Program (SDP). While deployed to a combat zone, a uniformed service member can deposit up to $10,000, which will earn 10% interest annually.

Also, a service member deployed to a combat zone can contribute up to $57,000 to the TSP in 2020, which is considered an annual addition; those older than age 50 can contribute a total of $63,500, including a catch-up amount. (Contributions over $19,500, or over $26,000 for those over age 50, automatically go into the pre-tax account rather than the Roth TSP.)

This can be a wonderful opportunity for clients in the military to leverage retirement funding if they spend time in a combat zone.

After-Tax Investing

If a client in the military has combat pay or allowance money to invest, some of those dollars might go into a pre-tax plan such as the traditional TSP, but the funds are not accessible until retirement, and withdrawals eventually will be taxed. Using a regular mutual fund or brokerage account will generate income tax on interest, dividends, and capital gains.

Alternatively, Roth accounts can make good homes for such outlays. Qualified withdrawals must wait for five years and age 59½, so relying on Roth accounts is a genuine retirement plan.

Roth accounts are also a good home for after-tax income in general. You can pay tax on current income and use the after-tax dollars to invest in the Roth TSP or Roth IRA so that there is no future taxation on withdrawals.

Advisor Action Plan

- During your periodic client meetings, note which individuals serve or have served in the military.
- For retirees in that category, ask if they are receiving a military pension. Such clients may prefer living in a state where their pensions won't be taxed.
- Inquire if clients are eligible for military retirement disability pay, which is untaxed.
- For retirees in that category, see if they should choose to maximize those benefits even if they must give up an equivalent amount of taxable pension dollars.
- Make sure clients are receiving any veterans' property tax benefits to which they're entitled.
- Recommend that clients now on active duty consider investing at least some income to future retirement, possibly in an after-tax Roth account. ■

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