

Chapter 10  
Planning for Retirement

Section 10-1B

## Retirement Income from Savings

**Objective:**

**Calculate** the tax penalty and implications of an

**Calculate** the amount you should save for retirement if your

**Example 4**

Zander is a 50-year-old married man who files taxes separately from his wife. He has been making monthly contributions into his traditional IRA for many years. Last year, he entered into a new business partnership and decided to withdraw \$50,000 from his IRA to make the initial investment in the partnership. Zander's taxable income (line 15 on his 1040), excluding the \$50,000 from his IRA, was \$96,000. How much extra did he pay in both penalty and taxes because of this withdrawal?

Step 1: Determine the taxes before the withdrawal. (Use a table or worksheet)

Step 2: Determine the new taxable income with the withdrawal.

**New taxable income =**  
New taxable income =  
income without withdrawal + withdrawal

Step 3: Determine the taxes with the withdrawal. (Use a table or worksheet)  
(See back of notes for table)

Step 4: Determine the tax increase as a result of the withdrawal.

**Tax increase =**  
Tax increase =  
Post-withdrawal - Pre-withdrawal

Step 5: Determine the 10% tax PENALTY as a result of the withdrawal.

**Tax penalty =**  
Tax penalty = Withdrawal x .10

Step 6: Determine the total extra taxes paid because of the withdrawal.

**Extra taxes paid =**  
Extra taxes paid =  
tax increase + tax penalty

**Example 5**

Leo makes \$75,000 per year. His company offers a 401k retirement plan in which they match 50% of his contributions to the 401k up to 6% of his salary. The company allows employees to make contributions to the 401k to a maximum of 15% of their salary.

a. What is the maximum Leo can contribute per month?

Step 1: Determine the maximum his employer allows him to contribute.

**Your Annual Maximum Contribution =**  
= income x % allowed(converted)

Step 2: Determine the Determine the monthly contribution.

**Your Maximum Monthly contribution =**  
= (Step 1 answer)/12

b. How much should Leo contribute per month in order to maximize his employer's matching contribution?

Step 1: Determine the maximum % his employer will contribute.

**Your Annual Maximum Match Contribution**  
= income x up to %(converted)

Step 2: Determine the maximum per month.

**Your Monthly Contribution =**  
= (Step 1 answer)/12

c. How much will the employer contribute per month?

Step 3: Determine the maximum match per month.

**Monthly employer contribution =**

d. How much will be put in Leo's 401K every month?

Step 4: Add the employee and employer's contributions.

**Total contribution =**

**Assignment 10-1B**

Read Pages 608 to 611

Do Page 614: # 4, 6, 12-14

and Page 656: #16

Note for Q#14: y = \$85,000, M=4%, P = 15%

Taxable income If line 15 is--	(a) Enter the amount from line 15	(b) Multiplication amount	(c) Multiply (a) by (b)	(d) Subtraction amount	Tax Subtract (d) from (c). Enter the result here and on Form 1040, line 16
At least \$100,000 but not over \$115,225	\$	x 28% (0.28)	\$	\$6,474.25	\$
Over \$115,225 but not over \$205,750	\$	x 33% (0.33)	\$	\$12,235.50	\$
Over \$205,750 but not over \$232,425	\$	x 35% (0.35)	\$	\$16,350.50	\$
Over \$232,425	\$	x 39.6% (0.396)	\$	\$27,042.50	\$