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The New Clean Vehicle Tax Credit and Your Retirement Strategy

By Ed Slott, CPA

The New Clean Vehicle Tax Credit could help offset the cost of purchasing a new electric vehicle (EV), but only if the buyer's modified adjusted gross income (MAGI) for the taxable year or the preceding taxable year (whichever is less) does not exceed $150,000 ($300,000 for joint filers).

If you expect to buy a new EV in the next few years, you might want to learn more about the credit and think about how your retirement account contributions or distributions could impact your ability to take advantage of this valuable incentive.

Research qualifying vehicles

Up to $7,500 is available (in two parts) for the purchase of a new all-electric, plug-in hybrid, or fuel cell electric vehicle assembled in North America and weighing less than 14,000 pounds ($3,750 if a critical minerals requirement is met and $3,750 if a battery components requirement is met). The manufacturer's suggested retail price can't exceed $80,000 for vans, sport utility vehicles, and pickups, or $55,000 for other vehicles. You can find out which vehicles are eligible for a full or partial credit at ***fueleconomy.gov***.

Adjust retirement savings to lower your MAGI

Deductible contributions to a traditional IRA and pre-tax contributions to an employer-sponsored retirement plan such as a 401(k) can help reduce your taxable income, but withdrawals are taxed as ordinary income. Roth contributions are not deductible, but qualified Roth distributions are tax-free.*

You might consider whether increasing contributions to your traditional accounts would reduce your MAGI enough to make you eligible for the tax credit.

For many people, it makes sense to accumulate retirement assets in Roth and traditional accounts. However, if you have been prioritizing Roth contributions and/or not maxing out pre-tax contributions, you might consider whether increasing your traditional contributions would reduce your MAGI enough to make you eligible for the tax credit in the same or next year.

For 2024, you can contribute up to $23,000 to a 401(k) plan ($30,500 if you're age 50 or older) and up to $7,000 to traditional and Roth IRAs combined ($8,000 if you're age 50 or older).

Manage distributions from retirement accounts

If you are retired and have assets in traditional and Roth accounts, you may already have the flexibility to avoid taking taxable distributions if doing so would push

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If you have any questions about the topics in this newsletter or about your financial future, call us. We are available to help.

Setting a Retirement Savings Goal

It's difficult to reach a destination unless you know where you're heading. Yet only 51% of workers or their spouses have tried to estimate the savings they would need to live comfortably in retirement.[1]

To get a start on establishing a retirement savings goal, use the simple worksheet on this page to compare the income you think you will need (or want) with the sources of income you expect.

How much income will you need?

Everyone's situation is different, but one common guideline is that you will need at least 70% to 80% of your pre-retirement income to meet your retirement expenses. This assumes that you will have paid off your mortgage, will have lower transportation and clothing expenses when you stop working, and will no longer be contributing to a retirement savings plan.

Although some expenses may be lower, others might increase, depending on your retirement lifestyle. Perhaps you want to travel more or engage in new activities.

Don't forget to budget for medical expenses. A recent study suggests that a couple who retired in 2022 at age 65 — with median prescription drug expenses and average Medigap premiums — might need $318,000 in savings to cover retirement health-care expenses (not including dental, vision, or long-term care).[2] This equates to about $12,720 annually over a 25-year retirement. Future retirees may face even higher costs.

Estimate income sources

You can estimate your monthly Social Security benefit at different retirement ages by establishing a *my* Social Security account at ***ssa.gov/myaccount***. The closer you are to retirement, the more accurate this estimate will be. If retirement is many years away, your benefit could be affected by changes to the Social Security system, but it might also rise as your salary increases and the Social Security Administration makes cost-of-living adjustments.

If you expect a pension from current or previous employment, you should be able to obtain an estimate from the employer.

Add other sources of income, such as from consulting or a part-time job, if some type of work is in your plans. Be realistic. Consulting can be lucrative, but part-time work often pays low wages, and working in retirement is less likely than you might expect. In 2023, 73% of workers expected to work for pay after retirement, but only 30% of retirees said they had actually done so.[3]

The income from your savings may depend on unpredictable market returns and the length of time you need your savings to last. Higher returns would enable your nest egg to grow faster, but it would be more prudent to use a modest rate of return in your calculations. Remember that all investing involves risk, including the possible loss of principal, and there is no guarantee that any investment strategy will be successful. Investments seeking higher rates of return also involve a higher degree of risk.

Moving forward

A rough estimate of your retirement savings goal is a good beginning, and a professional assessment may be the next step. Although there is no assurance that working with a financial professional will improve investment results, a professional can evaluate your objectives and available resources and help you consider appropriate long-term financial strategies.

1–3) Employee Benefit Research Institute, 2023 (Health-care expenses include Medigap premiums, Medicare Part B premiums and deductibles, Medicare Part D premiums, and out-of-pocket prescription drug expenses; projection is based on a 90% chance of meeting expenses and assumes a 7.32% return on savings from age 65 until expenditures are made.)

Get Started

This worksheet might give you a general idea of the savings needed to generate your desired retirement income.

	Example	You
1. Annual retirement income desired	$80,000	
2. Expected income from sources such as Social Security or a pension	$30,000	
3. Income you need to generate from savings and investments (line 1 – line 2)	$50,000	
4. Savings needed to provide desired income for 25 years, assuming 5% annual return (line 3 x 14.1 income generation factor)*	$705,000	
5. Savings needed to provide desired income indefinitely, assuming 5% annual return (line 3 ÷ .05)	$1,000,000	

*Use a factor of 12.5 for 20 years or 15.4 for 30 years; factors are rounded.
This hypothetical example does not account for taxes or inflation and is used for illustrative purposes only. Rates of return will vary over time, particularly for long-term investments. Actual results will vary.

Time for a Spring Cleanup: Organizing Your Financial Records

The arrival of spring is always a good time to dust off the cobwebs that have built up in your home during the winter. It's also a good time to clean out and organize your financial records so you can quickly locate something if you need it.

Keep only what you need

If you keep paperwork because you "might need it someday," your home office and file cabinets are likely overflowing and cluttered with nonessential documents. One key to organizing your financial records is to keep only what you absolutely need for as long as you need it.

Tax records. Keep all personal tax records for three years after filing your return or two years after the taxes were paid, whichever is later. (Different rules apply to business taxes.) If you underreported gross income by more than 25% (not a wise decision), keep the records for six years, and for seven years if you claimed a deduction for worthless securities or bad debt. It might be helpful to keep your actual tax returns, W-2 forms, and other income statements until you begin receiving Social Security benefits.

Financial statements. You generally have 60 days to dispute charges with banks and credit cards, so you could discard statements after two months. If you receive an annual statement, throw out monthly statements once you receive the annual statement. If your statements include tax information (e.g., you use credit-card statements to track deductions), follow the guidelines for tax records.

Retirement account statements. Keep quarterly statements until you receive your annual statement; keep annual statements until you close the account. Keep records of nondeductible IRA contributions indefinitely to prove you paid taxes on the funds.

Real estate and investment records. Keep at least until you sell the asset. If the sale is reported on your tax return, follow the rules for tax records. Utility bills can be discarded once the next bill is received showing the previous paid bill, unless you deduct utilities, such as for a home office.

Loan documents. Keep documents and proof of payment until the loan is paid off. After that, keep proof of final payment.

Insurance policies. Keep policy and payment documents as long as the policy is in force.

Auto records. Keep registration and title information until the car is sold. If you deduct auto expenses, keep mileage logs and receipts with your tax records. You might keep maintenance records for reference and to document services to a new buyer.

Medical records. Keep records indefinitely for surgeries, major illnesses, lab tests, and vaccinations. Keep payment records until you have proof of a zero balance. If you deduct medical expenses, keep receipts with your tax records.

These are general guidelines, and your personal circumstances may warrant keeping these documents for shorter or longer periods of time.

Securely store your records

You can choose to keep hard copies of your financial records or store them digitally. You usually do not need to keep hard copies of documents and records that can be found online or duplicated elsewhere. Important documents such as birth certificates and other proof of identity should be stored in a safe place, such as a fire-resistant file cabinet or safe-deposit box. You can save or scan other documents on your computer, or store them on a portable drive, or use a cloud storage service that encrypts your uploaded information and stores it remotely.

An easy way to prevent documents from piling up is to remember the phrase "out with the old, in with the new." For example, if you still receive paper copies of financial records, discard your old records as soon as you receive the new ones (using the aforementioned guidelines). Make sure to dispose of them properly by shredding documents that contain sensitive personal information, Social Security numbers, or financial account numbers. Finally, review your records regularly to make sure that your filing system remains organized.

Personal Document Locator

A personal document locator is a detailed list of your personal and financial information that can assist others in the event of your death or disability. Typically, a personal document locator will include the following:

Personal information (e.g., date of birth, Social Security number)

Names and phone numbers of personal contacts

Names and phone numbers of professional service providers (e.g., banker, physician, attorney, tax preparer, financial professional)

Online accounts, with usernames and passwords

Location of important legal and financial documents

Where Will You Live as You Grow Older?

Many people would rather not think about the consequences of aging in general, much less the possibility that they might need help meeting their daily medical or personal needs in the future. Yet recent research projects that most Americans (56%) who are age 65 or older will require long-term care support and services in their lifetimes.[1]

For this reason, there may come a time when you rethink the practicality of your living situation. And planning ahead could help ensure that you will have access to the type of care you need, in the setting that you prefer, as you age. Here are some common options to consider.

Your home

Given a choice, you might prefer to receive care in your own home, as it offers a measure of independence in a familiar environment. Family caregivers, friends, or paid workers could assist with everyday tasks, and professionals such as nurses and home health aides could provide home health care. In addition, a variety of community support services may be available, including adult day-care centers and transportation services.

Assisted living facilities

If you want to remain independent but need some help with activities of daily living on a regular basis, you might choose to live in an assisted living facility. These home-like facilities offer housing, meals, and custodial care (help with bathing, dressing, housecleaning, etc.) but generally not medical or nursing services.

Continuing care retirement communities

Also known as life plan communities, CCRCs provide a range of services — from independent living to full-time skilled nursing care — all in the same location, allowing you to age in place. The housing options offered by CCRCs may include townhouses or cottages for independent living, assisted living apartments, and nursing home accommodations.

Nursing homes

Nursing homes are generally the most expensive (and least desirable) option, but they are often a last resort for those with serious health conditions who can no longer take care of themselves. State-licensed nursing facilities offer more specialized skilled care, custodial care, and intermediate care — which is for individuals who were hospitalized and require rehabilitation and additional support until they are well enough to return home.

1) U.S. Department of Health and Human Services, 2022

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your MAGI above the eligibility threshold. But once you are age 73 or older, you generally have no choice but to take required minimum distributions (RMDs) from your traditional IRAs and employer-sponsored retirement plans.

Roth accounts, however, are not subject to RMDs, which is an attractive feature that makes Roth conversions a common retirement and estate planning tool. Thus, if you are willing to pay the resulting tax bill, converting assets could help you better control your taxable income in the years that follow.

On the other hand, you might plan to avoid converting assets in the same year (or the prior year) that you intend to buy an EV if doing so would prevent you from claiming the credit.

Account for RMDs

If you turn 73 in 2024, you can delay your initial RMDs from your traditional IRAs and employer plans until April 1, 2025, which could help keep your 2024 income below the threshold to qualify for the credit. However, you must then take your 2025 distribution by December 31, 2025, so you should make sure the tax bite of taking two RMDs in one year won't outweigh your savings from the tax credit.

**A Roth withdrawal is only considered qualified if the account is held for at least five years and the distribution is made after age 59½. Distributions from traditional or Roth accounts taken prior to age 59½ may be subject to a 10% federal income tax penalty, with certain exceptions.*

Ed Slott is a professional speaker and the creator of several public television specials, including "Retire Safe & Secure! with Ed Slott." He is the author of *The Retirement Savings Time Bomb...And How to Defuse It* and many other books about IRA planning.

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