

Planning for Retirement Taxes: Fewer Withholdings, Less Stress

Admin User · December 22, 2025

Retire worry-free by minimizing tax withholdings and avoiding underpayment penalties.

By Amy Shepard

During your working years, most people have income taxes withheld directly from their paychecks. Once you retire, you no longer have that single source of income which can complicate your tax situation.

For example, common income sources for retirees can include Social Security, pensions, annuities, IRA withdrawals and many more. Some retirees do also work part-time whether it be hourly, salaried or self-employed. Additionally, state income tax laws regarding retirement income vary, so income that is federally taxable may not be taxable at the state level.

Having various sources of income in retirement can make it feel overwhelming to understand your tax situation, but the following are a few tips to help simplify taxes in retirement.

Have Fewer Sources of Tax Withholding

For those with multiple sources of retirement income, I recommend having tax withholding only come from one source, if possible.

- For example, for those who have Social Security, pension and IRA withdrawals, I might suggest they have all of their withholding come from IRA withdrawals. This means they will get the full amount of Social Security and Pension income each month and they can then do one lump-sum tax withholding from their IRA withdrawal to make sure they have enough tax withheld to meet the Safe Harbor rules (more on that below).

- For those who have Social Security and pension income, but not IRA withdrawals, they might want to have all tax withholding come from one of the two income sources, rather

than both. That can make it easier to keep track of how much tax is withheld throughout the year and can also make it easier to adjust withholding at only one source instead of multiple.

Safe Harbor Rules

Although U.S. tax law can be confusing, the IRS does have “Safe Harbor” laws to help taxpayers avoid underpayment penalties.

- If you pay at least 90% of the current year tax liability, you will not be subject to underpayment penalties. It can be tough to estimate what your current year tax liability will end up being, so the options below help address that.

If your prior year AGI is less than \$150,000 and you pay at least 100% of the prior year tax liability, you will not be subject to underpayment penalties.

If your prior year AGI is \$150,000 or higher and you pay at least 110% of the prior year tax liability, you will not be subject to underpayment penalties.

- If your prior year AGI is less than \$150,000 and you pay at least 100% of the prior year tax liability, you will not be subject to underpayment penalties.

- If your prior year AGI is \$150,000 or higher and you pay at least 110% of the prior year tax liability, you will not be subject to underpayment penalties.

Estimated Taxes

I have had many new retirees ask if they will need to start making quarterly estimated tax payments due to their recent retirement. If the retiree can withhold taxes from an income source like Social Security, pension, annuity or IRA withdrawals, they likely don't need to worry about making quarterly payments, as long as they are having enough withheld.

- Making estimated tax payments does not prevent someone from incurring underpayment penalties; the Safe Harbor percentages still apply. Additionally, the timing of estimated tax payments matters – if you make one estimated tax payment during Quarter 4, you may still be subject to underpayment penalties due to the timing of the payment.

- In order for quarterly estimated tax payments to prevent penalties, they need to be four equal amounts that, in total, meet the safe harbor rules.

- **One-Time Events** – Retirees often have one-time income events such as realizing capital gains or doing a Roth conversion. These events can have tax implications. In these cases, sometimes a one-time quarterly payment is needed. Other times, if the Safe Harbor percentages are met from other sources, these events won't require any action until taxes

are filed.

Withholding

While estimated tax payments have timing considerations, tax withholding through sources like Social Security, pensions and IRA withdrawals do not. Tax withholding in these instances is deemed as being withheld throughout the year.

- For example, if someone has Social Security and pension income all year long and has zero taxes withheld, but then in December decides to take an IRA withdrawal and have enough tax withheld to meet the Safe Harbor rule, that will work!

Penalties and Interest

If you don't have enough tax withheld during the year, you may be subject to underpayment penalties and interest. On the other end of the spectrum, if you have TOO MUCH tax withheld, you may miss out on earning interest for yourself! These two extremes didn't matter so much when interest rates were close to zero, but with rates around 4-5% right now, this is much more important to keep track of.

State Income Taxes

All the information above is based on federal income tax laws, but keep in mind that states have their own income tax laws. Many states follow similar rules as the IRS, but there are plenty of exceptions, so it's important to understand your states income tax laws to formulate an appropriate tax plan.

This article barely scratches the surface of tax planning for retirees but, as you can see, there's a lot that goes into it! My best advice is to keep things simple as much as possible. Aim for one source of tax withholding if possible, only make estimated tax payments when necessary and keep an eye on the Safe Harbor percentages so you don't accidentally underpay or overpay.

About the Author: Amy Shepard, CFP®, RMA®, BFA®, MBA,

Amy Shepard, CFP®, RMA®, BFA®, MBA, is a partner and financial planner with [Sensible Money](#). She has a passion for financial planning and loves working with clients to help them gain the financial confidence to live the life they envision. Amy has a Bachelor's in Accounting and an MBA. She is a CERTIFIED FINANCIAL PLANNER professional, a Retirement Management Advisor®, and a Behavioral Financial Advisor.
