The Hidden Tax Threat For the Six Figure Earner

What you don't know could cost you six figures or more in extra taxes!

WealthForLife.net

The Hidden Tax Threat For the Six Figure Earner.

by Denver Nowicz

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Taxes don't go away in retirement.

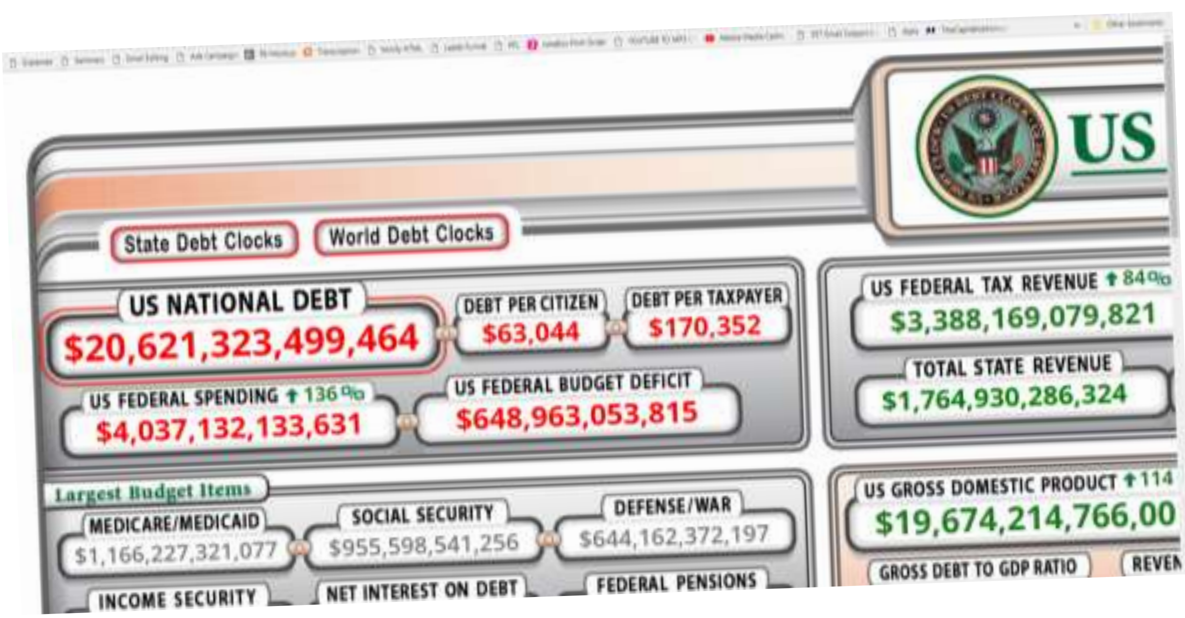
You've probably been told max out your "Qualified Plan" to save you money on taxes. (Qualified Plans such as a 401k, IRA, SEP or defined benefit plan.)

This is not a "tax savings." This is a "tax deferral." You still have to pay the taxes – just not right now.

When you retire and withdraw money from your "Qualified Plan" your withdrawal is taxable as ordinary income.

Since you will have to pay those taxes later a few questions may come to mind:

- What tax bracket will you be in when you retire?
- Will taxes be higher or lower?
- Will you end up paying more in taxes by waiting to pay them later?



Will taxes be higher in the future?

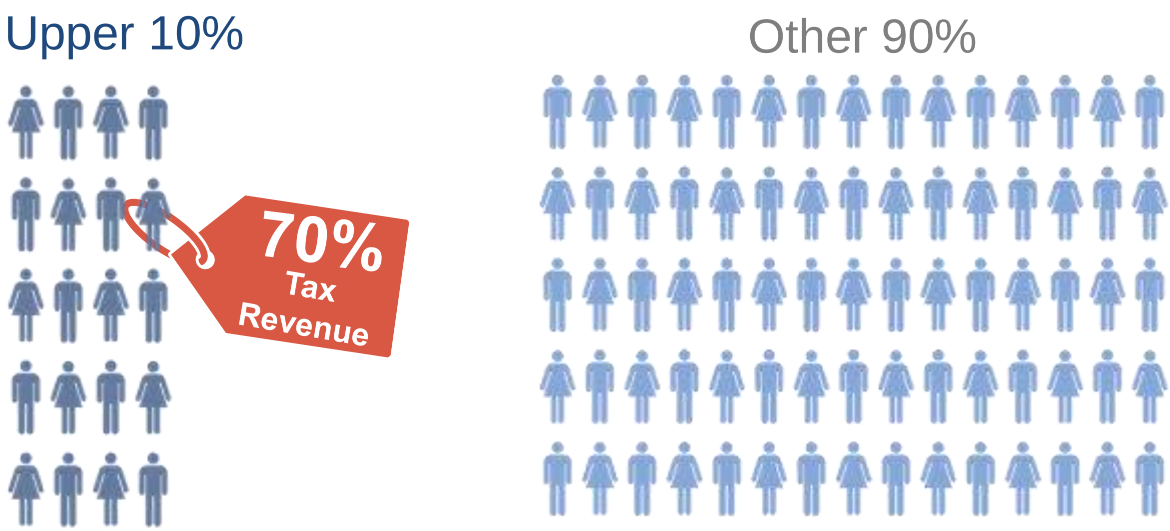
- By 2045 there will be over 140 million people on Social Security and Medicare.
- This is more than double the current amount.
- Social Security and Medicare are already hitting financial shortfalls sooner than expected.
- Technology and innovation will continue to replace jobs so there will be less people paying into the system.
- It is estimated that the Top 10% of wage earners will pay 87% of the tax revenue to cover the other 90%.

Wont you be in a lower bracket when you retire?

"The old thinking was that you should defer tax bills until you are in a lower bracket at retirement. Higher bracket is more like it. …plan on big federal deficits and higher income taxes when you retire…"

The Tax-Deferral Trap
Forbes Magazine - September 07, 2009

Here's the key issue. The Upper 10% of Americans currently pays 70% of all Federal Taxes.



If you are in this group you have a target on your back.

You need a system in place so you pay your fair share but not more than you should.

If you don't have a tax protection system you could pay literally hundreds of thousands more in taxes than you need to.

Most financial advice is geared toward the other 90%. They do not have a tax problem and that's why you don't hear about this.

The misperception starts here.

Here's what most people say when they estimate the amount of annual income it takes to get into the top 10%, top 5% and top 1% of U.S. Household Income:

Income Category	Income - Educated guess -
Top 1%	$ 1,000,000
Top 5%	$ 500,000
Top 10%	$ 250,000

What do you guess? See the next page for answers…

Here are the actual numbers from the IRS database:

Income Category	Income - Educated guess -	Actual Income - Statistical data - *Source: AGI Data from IRS 2015 Database
Top 1% (39%)	$1,000,000	$ 480,930
Top 5% (59%)	$ 500,000	$ 195,778
Top 10% (70%)	$ 250,000	$ 138,031

= Share of U.S. Federal Taxes Paid

So it takes less than you think to get there and you will pay more in taxes than you are being told!

The new rich is basically defined as income over $100,000.

Retirees in this group are already feeling the pain.

Nearly 1 out of every 3 dollars spent by high income retirees goes to taxes.

Remember: High Income = $100k or higher

Source: Lincoln Benefit - *The underrated impact of taxes on retirement.*

To make matters worse, high income earners are constantly worried about taxes in retirement.

Below you will see how they rank their concerns.

1. Health of Spouse
2. Taxes
3. My Own Health

Who wants to spend their retirement years worried about taxes!

Wouldn’t it be amazing not to have to worry about taxes?

With a Tax Protection System you can limit or eliminate the effect of future tax increases on your wealth.

Imagine you are in control of how much the government takes and when. These structures exist. You can do this. Big corporations and banks do this everyday. Of course they do!

The strategy starts with organizing your wealth into taxable and tax-free positions.

So let's take a look at the impact of taxes on two different retirement incomes:

$120,000 → $250,000

Retirement Income Example #1: $120,000

Hypothetical case studies based on 2021 tax rates.
Estimates from https://www.hrblock.com/tax-calculator/.
Consult your tax advisor for more info.

BEFORE Tax Protection

- $30,000 social security
- $90,000 401k withdrawal
- No Tax free withdrawal

- **$8,000 federal tax married filing jointly**
- **$14,000 federal tax – single**

AFTER Tax Protection

- $30,000 social security
- $45,000 401k withdrawal
- $45,000 Tax free withdrawal

92% Savings Married

71% Savings Single

- **$625 federal tax – married filing jointly**
- **$4,000 federal tax – single**

Retirement Income Example #2: $250,000

Hypothetical case studies based on 2021 tax rates.
Estimates from https://www.hrblock.com/tax-calculator/.
Consult your tax advisor for more info.

BEFORE Tax Protection

- $30,000 social security
- $220,000 401k withdrawal
- No Tax free withdrawal

- **$40,000 federal tax married filing jointly**
- **$52,000 federal tax – single**

AFTER Protection

- $30,000 social security
- $110,000 401k withdrawal
- $110,000 Tax free withdrawal

70% Savings Married

62% Savings Single

- **$12,000 federal tax – married filing jointly**
- **$20,000 federal tax – single**

For both incomes the potential yearly tax savings is significant:

$120,000 Income	**92%** yearly savings	**$147,500** over 20yr retirement
$250,000 Income	**70%** Yearly Savings	**$560,000** over 20yr retirement

This is just the tax savings!

How much more wealth would you have if you could keep that money growing and earning interest?

- ➢ Reach your goals 30%-50% faster?
- ➢ Have more spendable income in retirement?
- ➢ Retire a couple of years earlier?

How are your assets diversified from a tax standpoint?

Take a quick inventory and see where you are at. If your tax-free assets are less than 10% of your assets, that's a problem.

Savings, Investments, Real Estate	401(k), IRA 403(b), DBP, SEP	ROTH, Tax Free Matching, CV Insurance
$____________	$____________	$____________

Try to get to at least 50% tax free so you have a mix of taxable and tax-free assets to pull from at retirement.

A balanced approach between taxable and tax free income sources could save you 50%-90% per year in retirement taxes.

Important takeaways from this e-book:

- 401k, IRA, SEP, 403b and Defined Benefit Plans are not tax savings plans. They are tax deferral plans. They simply delay paying the taxes you owe until the future.

- When you withdraw money at retirement from qualified plans it is taxed as ordinary income – just like your income is now.

Important Questions to Ask:

➢ Will you pay more in taxes by waiting until retirement to pay them?

➢ What tax bracket will you be in during retirement?

➢ Will taxes be higher or lower in future?

➢ Would you rather pay your taxes now and have them out of the way or wait until retirement?

The reality is taxes get paid either now or later. It is just a matter of how much and when.

“Nothing is certain except death and taxes.”

Benjamin Franklin
November 13, 1789

- ✓ By waiting to pay all the taxes you owe until retirement, you could end up paying two or three times as much as you should.
- ✓ A balanced approach between taxable and tax free income sources could save you 50%-90% per year in retirement taxes.
- ✓ This could give you a lot more money to spend during retirement.

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