

Uncle Sam Doesn't Want You! He Wants Your Money

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Today is April 18th, and for most Americans it is not a very festive day for celebration. Federal income tax returns are required to be mailed to Uncle Sam, along with any outstanding tax balance.

Affluent Americans spend much of their time during the year working on legal ways to minimize taxes. The goal is to keep as much money in our pocket and out of the government's pocket as possible.

One popular belief for saving taxes is to put money into qualified plans (IRA, 401K SEP etc.).

Is Putting Your Money Into a Qualified Plan a Good Place to Park Your Money?

You do not get a tax deduction when you put your money into a qualified plan! You receive a *tax postponement*.

Qualified Plans do two things.

- **Postpone the Tax**
- **Postpone the Tax Calculation**

Contributions are not tax deductions. The contributions allow you to declare less taxable income in the years of the contributions which means you will pay fewer taxes in that year. You *will* pay the tax, but it will be at the time of withdrawal.

Many Americans focus on their tax bracket at the time of the contribution.

Uncle Sam is only concerned about your tax bracket at the time of withdrawal.

What Tax Bracket Will You Be in During Retirement?

If you make distributions from your retirement account when you're in a lower tax bracket, you are a winner. You did save on taxes.

However, If you take distributions when you're in a higher tax bracket you are a loser. You didn't save on taxes. You also lost liquidity and use and control of that money along the way.

Our Tax History

The sixteenth amendment to the United States was enacted on February 25th, 1913. The amendment gave the federal government power to collect income taxes from people residing and working in the United States

The highest marginal tax bracket is currently 35%. However, this bracket has been much higher over the last 97 years.

The average tax bracket at the highest marginal tax rate, during our history is over 59%.

What Does Your Qualified Money Bank Statement Say?

Clients often walk in the door and let me know the amount of money they have in their qualified plan statements. A client recently told me they had \$1 million dollars in their account. I said "that is not entirely true." There are two sub accounts in your bank statement. Your portion is one sub account, and the other account is Uncle Sam's portion. Your portion is \$650,000, and Uncle Sam's is \$350,000 if you withdrew the money today.

However, if tax rates increase his portion could be much greater. The government's portion could be \$590,000 if we used the highest average tax rate history. This is a whopping 69% increase in taxes, and a huge erosion of wealth.

What Does the Future Hold?

I believe government will be taking a larger portion of our earned dollars because they are being called upon do more. A great potential source of revenue will be qualified plans because they are totally under the government's control. If you believe, like I do, that taxes will continue to rise then you should ask yourself the following questions.

- What is my exit strategy with this money?
- Will I have to pay the entire tax?
- Are strategies available that minimize or eliminate these taxes?
- What tax bracket will I be in when I withdraw the money?
- What deductions will I have when I take money?

Uncle Sam & Galileo

Galileo, the Italian Physicist, and one of the leaders of the Scientific Revolution, was held under house arrest, by the Catholic Church, until his death. The Church said he was a lunatic because he believed the Earth revolved around the Sun, the Sun did not revolve around the earth.

The Catholic Church contended the earth was stationary. It was the center of the universe. It wasn't until 1992 when Pope John Paul 11 conceded that Galileo was right.

The popular belief that qualified plans is a good place to park your money might have similar flaws like the belief once held by the Catholic Church. Galileo was not a lunatic, and the earth is not stationary.

Qualified Plans may not be a good place to park your money, and you may pay substantially higher tax when you start taking payments from those accounts.

Happy Tax Day!