

SHOULD THE TAX TAIL WAG THE INCOME DOG?



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Some of the things investors with substantial gains can do to minimize taxes on withdrawals are to consider the following:

- Make a gift to a charitable organization. There are ways to give highly appreciated assets to a qualified charity which provide tax relief to the investor. An example of this would be a charitable remainder trust. This split-interest gift will give the donor a federal income tax deduction. The trust pays an income to the donor. When the trust ends, the remaining interest goes to the charity.
- A 1031 exchange may be just what the doctor ordered if the asset is an investment in real estate. The general rules for an exchange are to identify replacement properties within 45 days of the sale of the relinquished property and settle on one of

those properties within 180 days. You will need a qualified intermediary to facilitate this transaction. Afterward, you can exchange the newer property into another property and eventually pass the final property to one's heirs with a step-up in basis.

- Defer gains by investing in a Qualified Opportunity Zone. QOZs were introduced in the *Tax Cuts and Jobs Act*, passed in December 2017. This was introduced to provide an incentive in investing in low-income communities. By doing so, investors can be rewarded with significant tax savings. The deferral on the capital gains is followed with a step-up in basis in the fifth year of 10 percent and again in the seventh year of another five percent. The investor is rewarded one more time as the new investment referred as the Qualified Opportunity Fund (QOF) will provide forgiveness of capital gains taxes from the QOF asset appreciation, provided the investor's holding period is ten years or more. QOZs & QOFs create a big win for everyone.

Other Tax benefits to consider Regarding Retirement Income

- Postpone Social Security Retirement. Fifteen percent or more of your social security check will be free of income tax. The bigger the check, the more tax-free income you will have for retirement. After you reach your full retirement, your social security check increases eight percent per year plus the cost of living adjustment. That can really add up.

- Investing in an annuity is also a great tax lever because the account owner determines when withdrawals will take place and therefore, when it becomes taxable. Moreover, some carriers have created payouts where the payment is considered a return of capital. Some of the income is excluded from taxes. The certainty of income also helps people sleep at night.

- REIT's for income and more diversification. This non-correlated asset can provide a deferral ranging as high as 50 percent. This can vary due to the sale of properties within the portfolio. Additionally, as much as 20 percent will be tax-free courtesy of the 2018 *Tax Cuts and Jobs Act*.

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- Growth and Income funds or stocks that pay qualified dividends. Investors need to know that not all dividends are taxed the same. Qualified dividends are taxed as long-term capital gain tax rates. And, although there have been a few changes to the tax treatment of qualified dividends, they are still taxed at 0, 15 & 20 percent. Your filing status and income will determine which rate you will pay.

- Municipals are a consideration for investors who are in a high tax bracket. Because their taxable equivalent might be high, it could create a risk that is not congruent with the investor's profile. Therefore, look at both factors before making those decisions.

- Opposite of high net worth investors are seniors who may need to consider borrowing from their homes. Although this might be an option for them, it should be given careful consideration. If leaving a gift to a loved one or charity is high on their priority list, this might not help the cause.

As You Move Forward Consider the Following for Your Financial Plan

- Have a clearly defined goal. An example of this could be that you want 80% of your income in retirement, adjusted annually for inflation.
- Put a plan in force to achieve this goal. Without action, you just have an idea.
- Monitor the plan. Review your progress at least annually. Maybe as often as twice a year or quarterly.
- When life changes, make adjustments accordingly. Things such as gifts, bequests, or changes in marital status should be taken into consideration.
- Know that the distribution phase is just as important as the accumulation phase. The rate in which you distribute assets can potentially kill the goose. Play with just the eggs.
- Whether you are approaching retirement or in retirement, know that life expectancy is longer than prior generations. Planning for medical and Long-Term Care expenses are important.
- Last but not least, remember that pros in all walks of life became a pro because they had someone show them the way.

Don't be afraid to be a pro.

For additional information, call Dennis Pellegrini at 610.898.1241. Please note: Peak Brokerage Services, LLC does not offer tax advice. Please consult with your tax professional. Advisory Services offered through Blackridge Asset Management, LLC, a Registered Investment Adviser. Securities are offered through Peak Brokerage Services, LLC, Member FINRA/SIPC. Blackridge Asset Management, LLC is separate and independent from Peak Brokerage Services, LLC.

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