Dynamic Chiropractic

YOUR PRACTICE / BUSINESS

Read My Lips

Stanley Greenfield, RHU

Read my lips, read my body language, read the classifieds, or read the bumps on my head. Read whatever you want to read, but be sure of two things in life: death and taxes. Death is still the same old death, but when it comes to taxes, we will have new taxes. Correction, we won't have new taxes; the government will just increase the old ones. You might as well get used to the fact that death and taxes will probably be around longer than styrofoam cups. I can't help you with death other than to remind you to exercise and eat properly.

Now, with the tax side of the equation, that's a different story. I can help you "exercise" all the options available to you under the law, and put your taxes on a diet. The tax world is constantly changing and you must make sure that you are up-to-date and taking full advantage of the law. Don't get into a position where the law is taking full advantage of you.

Let's start with the basics. It's not the "gross" that's important, it's the "net." You can't spend the gross, even though many of you try. Even the government understands the difference and only taxes your net. Thank goodness for small favors. You need to maximize your dollars and minimize your taxes. Start by liberating those stale dollars that you have sitting in passbook savings and interest-bearing checking accounts that are paying you a whopping six percent interest rate. With federal and possibly state and local taxes, you may net about 60 percent of that, leaving you with a return on you money of 3.6 percent. Not even enough to keep up with inflation. How about if you are earning eight percent? Remember that's gross, not net. The net would yield 4.8 percent. Just think, an increase in the tax rate will lower your net even more.

Now you can understand why I like tax-free money market accounts so much. Your gross becomes your net, so a return of 5.5 percent gross is 5.5 percent net. A simple transfer of your dollars to a tax-free money market account can increase your net, and remember, that's what counts. While you are checking things over, take a good look at all of your savings and investments to see what your net really is.

While I'm on the subject of net vs. gross, I still can't understand why anyone who can legally use a qualified retirement plan doesn't. Even an IRA putting aside $2,000 is better than no plan at all. Numbers don't lie. You put $2,000 into an IRA which means you can take $2,000 off of your taxable income. At 33 percent tax rate, you immediately save $660. Let's assume (I really hate that word) that you earn seven percent on that money, and since it's in an IRA, there is no current taxation on those earnings, so your gross becomes your net. That means at year's end, you now have $2,140 in your IRA.

Let's change the scenario and leave out the IRA which means that if you have $2,000 you must now pay Uncle Sam his fair share of 33 percent, which leaves you with a net of only $1,340. Let us now assume again a return of seven percent, but this time the interest is taxable. Now we come to year's end again, but this time we only have $1,402.85 to show for all our efforts. If you can imagine what that would look like run out to retirement age, you can now begin to see why I keep jumping up and down on why I think you need to consider using a qualified plan. How about if you had a plan that allowed you to put away up to $30,000 per year before taxes, and all of the interest was not currently taxable? No, that is wishful thinking. That is what a qualified plan will allow you to do. Worth investigating? I think so. Are there other ways to increase your net? Yes, there are and it's time to start exploring all the options available to you. Read my lips again. Taxes will continue to go up. Just make sure that your net goes up as well.

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Please send a self-addressed, stamped envelope. Thank you.

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