Dynamic Chiropractic

More Taxes? Yuck!

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I will start this article by making the very large assumption that you don't mind paying your fair share of taxes, but you really have no desire to pay one penny over that amount. Am I correct with my assumption?

Okay, so the first part of it is a little off, but you will agree with the last portion about not paying one red cent more than you have to. Good! Now we can move forward. My next assumption is that you have done some homework and have taken advantage of every tax break that is available to you. Well, maybe you need to do some more work in that area!

I am now going to point out an area that you need to examine very closely, because it is one that is never considered a potential tax problem. In fact, it is considered a tax savings. On the surface, it appears to be a big tax savings, but when you dig a little deeper, you will see what I have uncovered for you, and it ain't gold! In fact, it is a potential liability that could cost you and your family as much as $700,000, and that ain't hay! What is this potential problem called? Believe it or not, it's a qualified retirement plan. Yes, retirement plans -- pensions, profit sharing, 401-Ks, SEPs, IRAs -- all of them.

In addition to the tax problem, for some reason, you have also chosen to take a partner, and this partner is not so silent. This partner tells you how much you can put into your qualified retirement plan for yourself, and even goes one step further by telling you what employees you have to include and how much you must put in for each of them. The partner also decides when that money belongs to the employees, and the partner will give it all to them in three to seven years. That partner's being very generous with your money! Who, you ask, is this know-it-all partner? Your favorite uncle ... Uncle Sam.

Uncle Sam also decides when you can get to your money. He says that if you touch any of it prior to age 59 1/2, you must pay taxes on it, plus a 10% federal penalty. In California, you'll also get hit with an additional 2.5% penalty. He also states that you must start using that money by age 70 1/2, and you must pull out an amount based on your life expectancy, or you'll get hist with a 50% tax on the amount not distributed that should have been. Administrative charges can also be from a few hundred dollars to a few thousand each and every year. Best of all, Uncle Sam changes the playing rules every few years just to keep you in a state of confusion! Want to hear more? At your death, the state, federal and estate taxes can eat up as much as 75% of your plan. Isn't that wonderful?

Here's an example of a qualified plan. Dr. Crackem Lowe (he's been around before!) has a plan and has put in $30,000 per year for the past 20 years. He has earned 8% per year on his money, and is now sitting with $1,482,687. Not bad!

If he pulls out just 4% per year, that amount is $118,615. At a 30% tax bracket, that would take $35,584 out of that amount, leaving a net of $83,031. Based on those numbers, how long will it take Uncle Sam to get back all the taxes Dr. Lowe saved by having a qualified plan? Well, Dr. Lowe put in a

total of $600,000 ($30,000 per year for 20 years). At a 30% tax rate, that is a total tax of $180,000 that he saved by having a plan.

Now the bad news. Dr. Lowe is going to pay $35,584 in taxes each year, so Uncle Sam will get all the taxes back that were saved by the plan in about five years! If Dr. Lowe lives for 20 years, Uncle Sam will be smiling with a total tax of $711,680! That's more than the doctor put into the plan. Wow!

Is there a way to put money aside and not have this partnership with Uncle Sam? Yes, there is. It may surprise you, but you can do it with life insurance. Yes, I said life insurance ... that stuff that everyone has been telling you is a bad investment. With life insurance, the premiums are paid with after-tax dollars.

Let's use the same example of the $30,000 that was going into the qualified plan. At a 30% tax bracket, you would need to have $42,857 to end up with the net of $30,000. The money foes in, and since it is a life insurance policy, you pay no taxes on the growth within the policy. So if you pay the tax for 20 years at $12,857 per year, the total is $257,140. That's a savings over the taxes of a qualified plan of $454,550!

I ran some numbers just to see what such a plan would yield. After all, everyone knows that life insurance is a poor investment. Let's assume that the doctor is age 35 and in good health. I am using the standard rates that apply to normal life expectancy, not the rates for that minority who will beat the actuary tables. That would make the policy look even better. He will deposit $30,000 annually for 20 years. We will use the insurance companies' current interest rate of just six percent. If he does that, at age 65, he will have a lump sum of $1,632,285. The qualified plan was only going to yield $1,482,687, and that was at an 8 percent return! The insurance policy beats the plan by $149,598, and that is with a two percent lower interest rate!

The qualified plan gave an annual yield of $118,615 before takes. After taxes, it was $83,031. The insurance policy will yield $100,000 per year tax-free, for life! It beats the plan by $16,969 per year. By the way, if you lived to 100, the policy would still have a cash value of $745,724! The policy starts with a death benefit of $2,500,000. Remember, this is assuming just a six percent interest rate. If the interest rate goes up over the years, so will the policy values. But that is not important, because everyone knows that life insurance is such a poor investment!

By the way, Uncle Sam cannot tell you how much you can or cannot put into this policy for yourself. He also cannot tell you that you must also put an equal amount away for each and every employee. In fact, he has no say-so when it comes to life insurance. That puts an end to this unholy partnership!

You can get to this money prior to age 59 1/2 without any tax liability, too. You can also structure a stream of cash to cover your retirement needs that is totally sheltered from any income taxes. At your death, the proceeds can be paid to your beneficiaries, without any estate tax liability or creditors getting their hands on this money, if structured properly. It works just like the new Roth IRA plan, but it gives you the ability to put away a lot more money into the insurance plan. In other words, no income taxes to pay on the accumulation; no income taxes or penalties to pay on the withdrawals; and no ultimate estate taxes to pay, if everything is set up properly. And no butting into your business by Uncle Sam, too!

I hope I haven't totally blown your minds with this concept. It isn't new, and I have told my clients for years that the best type of retirement planning would probably be a combination of both a qualified

plan and a life insurance policy use as a non-qualified retirement plan. Now you have the best of both worlds. You can also structure a qualified plan so you don't have to give all employees an equal amount in the plan. The vesting can be set up so that the employees don't always walk out with your money.

How does all this work? Will it work for you? Want to find out? Why not just pick up the phone right now, give yours truly a call, and I will show you! My address and telephone number are right below. See!

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