

Taxes? Yuk!

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I will start this by making some broad assumptions. 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 in my assumption? OK, so the first half of it is a little off, but you will agree with the second half - about not paying one red cent more than you have to, right? Good! Now we can move forward. My next assumption is that you have done some homework and have taken advantage of every tax break available to you. Am I right? Well, maybe you need to do some more work on that!

Let's begin by discussing an area you need to examine very closely, because it 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 is a qualified retirement plan - yes, retirement plans: pensions, profit-sharing, 401Ks, SEPs, IRAs, all of them.

In addition to the tax problem, for some reason you have also chosen to take on a partner and this partner is not a silent partner. This partner tells you how much you can put into your qualified retirement plan, and even goes as far as telling you which employees you need 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 will give it all to them in three to seven years. What a very generous partner - with *your* money! Who, you ask, is this know-it-all partner? It's your favorite uncle, Uncle Sam.

Uncle Sam also decides when you can get to your money. He says if you touch any of it before age 59 1/2, you must pay taxes and a 10 percent federal 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 get hit with a 50 percent tax on the amount that should have been distributed. Also, administrative charges can range from a few hundred to a few thousand dollars, 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 and fees can eat up as much as 55 percent of your plan. Isn't that wonderful?

Here's an example of a qualified plan. Dr. Crackem Lowe, age 55, has put \$30,000 per year into his plan for the past 20 years. He decides to stop his contributions and just let the money compound to age 65 before he starts any withdrawals for retirement. He has earned 8 percent per year on his money and is now sitting with \$3,268,533. Not bad! If he pulls out just 8 percent per year, that's \$261,482. At a 30 percent tax bracket, that takes \$78,444 out of that amount, leaving a net of \$183,038.

Based on these 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 percent tax rate, he saved a total of \$180,000 by having a plan. Now for the bad news: Dr. Lowe is

going to pay \$78,444 in taxes each year, and Uncle Sam will get all the taxes that Dr. Lowe saved in a little over two years! If Dr. Lowe lives to age 100, Uncle Sam will be smiling with a total tax of \$2,745,540!

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; the 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 example of the same \$30,000 that was going into the qualified plan. At a 30 percent tax bracket, you would need to have \$42,857 to end up with the net of \$30,000 each year. The money goes 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.

I ran some numbers just to see what such a plan would yield. Let's assume the doctor is age 35 and in good health. He will deposit annually \$30,000 for just 20 years until age 55. We will use the same rate of return at 8 percent. The qualified plan gave an annual yield of \$261,482 before taxes, with a net after-taxes yield of \$183,038. The insurance policy will yield more than \$325,000 net per year, tax-free for life! It beats the plan by \$141,962 per year. The policy starts with a death benefit of \$2,300,000.

Let us not forget that the qualified plan will still maintain the total asset value of over \$3,268,533, since all we are taking out is the interest earned each year. What if we took the same "net" amount of \$183,038 out of the insurance plan each year and left the rest to accumulate? What would we have left at age 100? More than \$97,000,000. Amazing, but true.

By the way, Uncle Sam cannot tell you how much you can or cannot put into this policy for yourself or for your employees. In fact, he has no say when it comes to this plan. That puts an end to this unholy partnership!

Finally, you can get to this money prior to age 59 1/2 without any tax liability, and also structure a stream of cash to cover your retirement needs that is totally sheltered from any income taxes. This plan works just like the Roth IRA, but it gives you the ability to put away a lot more money by not including income taxes to pay on the accumulation, or income taxes/penalties to pay on the withdrawals. In other words, there will be no butting into your business by Uncle Sam.

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