

1. **Taxable Asset:** This refers to any investment or asset that generates taxable income or capital gains. Examples include:
  - Stocks and bonds held in a regular brokerage account
  - Savings accounts and certificates of deposit (CDs)
  - Real estate properties that generate rental income
  - Mutual funds or ETFs held in a taxable account

Income generated from taxable assets, such as dividends, interest, or capital gains, is subject to taxation in the year it is earned.

2. **Tax-Deferred Asset:** These are investments or accounts where taxes on earnings are postponed until a later date. Common examples include:
  - Traditional Individual Retirement Accounts (IRAs)
  - 401(k) and other employer-sponsored retirement plans
  - Annuities with tax-deferred growth

Contributions to tax-deferred assets may be deductible in the year they are made, reducing current taxable income. However, taxes are generally due upon withdrawal or distribution, typically during retirement. Tax-deferred accounts can help investors save on taxes during their earning years and potentially have a lower tax rate in retirement.

3. **Tax-Free Asset:** These are investments or accounts where earnings and withdrawals are not subject to federal income tax, and in some cases, state taxes as well. Examples include:
  - Roth Individual Retirement Accounts (IRAs)
  - Roth 401(k) plans
  - Municipal bonds issued by state or local governments in the investor's state of residence

Contributions to Roth accounts are made with after-tax dollars, meaning taxes are paid upfront. However, qualified withdrawals, including earnings, are tax-free as long as certain conditions are met, such as reaching age 59½ and having the account open for at least five years for Roth IRAs.

Taxable, Tax Deferred, Tax Free – withdrawals generally should be made in that order. Strategies to convert Tax Deferred to Tax Free should be used to minimize Tax. Such as moving money from a 401 or IRA to a Roth IRA during periods of low tax brackets. Depending on timing, it may even be beneficial to do this at higher tax brackets to reap the benefit of growth not being taxed. No penalties if the money stays in the Roth for at least 5 years. Backdoor Roth can be done regardless of income → Open an IRA, fund it, convert the IRA to a Roth IRA.