# A WORD ON TAX PLANNING

Tax planning is a very important part of the financial planning process. After all, it isn’t how much money you make, but how much money is available to use toward your goals that really matters. Therefore, reducing your taxes should be a major step in the process.

However, tax planning is a very complex subject. The tax laws have changed so much over the last few years that and new and different ways are now required. Some of these methods may challenge many ideas you have had about taxes in the past.

For example, long-term capital gains taxes have been reduced to a maximum tax rate of only 15%. Since IRAs and all other retirement plans, including annuities, are taxed at ordinary income when the money is withdrawn (usually at a higher tax rate), it has now often become advantageous to pay your taxes now as opposed to using these products that defer your taxes until later.

Where tax planning is really getting complex is in figuring out where you want to withdraw money from first when you are retiring. How long do you delay social security, if at all? Do you take money from your 401k plan first, your IRAs, or from your taxable investments? Should you cash out stock or continue to hold what historically has been a profitable investment?

All of these questions have tax consequences that need to be taken into consideration when creating your financial plan. And the answers aren’t as simple as they once were.

It is important to find a financial advisor that understands taxes. I have been a tax preparer as well as a financial planner and investment advisor for years. I still prepare a hundred or so tax returns a year so as to keep myself sharp and up to date on the world of taxes. I am as qualified as anyone in understanding how to plan your investments to pay the least amount of taxes.

Taxes get even more complicated when you are talking about estate taxes. Transferring your wealth to your loved ones upon your death is a very challenging prospect if you want to keep Uncle Sam from taking a huge chunk of the money.

Many of the methods used in reducing estate taxes are extremely complex (although many are not). In addition some of the methods are very creative and haven’t been thoroughly tested as far as their validity with the IRS is concerned. Much care needs to be taken in this area to be certain you are using a proven and tested technique.

However, tax reduction represents such a huge reward that it is a topic that is well worth a lot of attention in the financial plan. Be certain your advisor is well schooled in the art of tax planning.