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FINANCIAL AND INSURANCE SERVICES

Is Your Financial Strategy Tax-Diversified?

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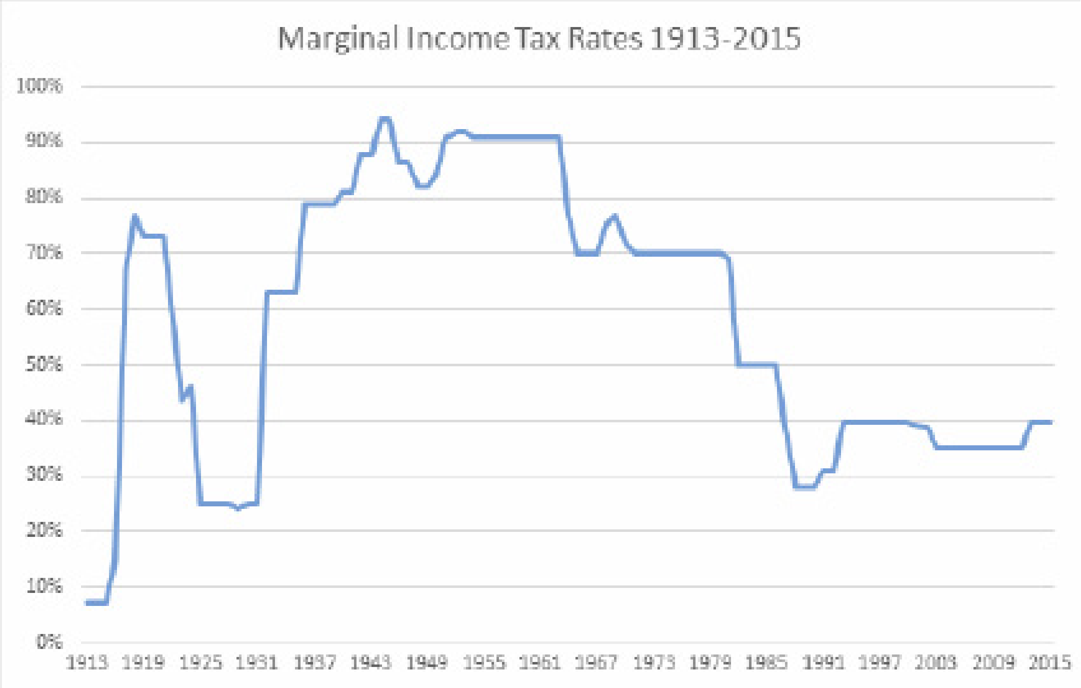
With all the recent changes in Washington DC, many people are expecting tax reform to be a hot topic in 2017 and beyond. While President Trump campaigned on tax cuts for many Americans, there's no telling what may happen when future administrations face large budget shortfalls. No matter which political party is in control, you should always maintain a tax-diversified financial strategy.

Where Are Taxes In Relation To Historic Rates?

It seems like people are always complaining about taxes, but did you know that they are historically low right now? Take a look at the graph below. It shows the tax rates paid by the highest income earners. There have only been a few short periods since the inception of the federal income tax that rates have been lower than they are now.



Source: Eugene Steuerle, The Urban Institute; Joseph Pechman, Federal Tax Policy; Joint Committee on Taxation, Summary of Conference Agreement on the Jobs and Growth Tax Relief Reconciliation Act of 2003, JCX-54-03, May 22, 2003; IRS Revenue Procedures, various years.

https://www.kitces.com/blog/end-of-year-2016-tax-planning-for-2017-trump-income-tax-reform/

Most of the last century saw much higher tax rates. As World War II came to an end in 1945 the highest tax bracket was 94% according to the IRS. Even after the war tax rates stayed high, with a top rate of 70% commonplace well into the 1980s. Our current top rate of 39.6% is relatively low compared to that.

Where Are They Headed In The Future?

Though no one has a crystal ball to see exactly what the future holds, a solid understanding of economics and government can give us some clues, which all point towards tax increases.

Simply put, taxes fund government spending, and the more the government spends, the more taxes are needed. With our aging population accessing Social Security and Medicare more than in past generations, these two programs are a major drain on tax revenues. Additionally, because of government programs like the Affordable Care Act, federally subsidized student loans, and interest on our ever-growing national debt, our government is going to need more money in the future. This will means that tax rates are likely to increase in the future.

How Can You Prepare Your Portfolio For A Tax Increase?

It's challenging to plan for an unknown future, but there are options available if you want to be proactive. One approach is to use tax-free investments, like municipal bonds. That way, if marginal tax rates increase, that income will generally not be affected.

You also can avoid a tax increase with the use of Roth IRAs. Unlike a traditional IRA, contributions to a Roth IRA are funded with after-tax earnings, so you pay income tax at current rates and avoid potentially increased future rates. The growth of the account and your future withdrawals will be tax free as well (as long as the account is open for 5 years and you're aged 59½ or older at the time of distribution).

How We Can Help

In light of historic tax rates and future projections, you should review your portfolio to see if it is properly prepared to weather a tax increase. An experienced financial professional can easily identify any weaknesses in your portfolio and recommend any improvements that should be made. If you want the opinion of a seasoned professional, call us today at 916-781-7493 or email bkjohnson@ft.newyorklife.com. Together we can come up with a strategy to protect your portfolio no matter what Washington throws your way.

About Blaine

Blaine Johnson is an agent with New York Life Insurance Company and financial professional with nearly a decade of industryexperience. He specializes in providing financial and insurance services for pre-retirees and retirees including physicians, executives, and business owners. By focusing on a particular clientele, he can provide a customized approach that responds directly to the specific needs of clients. He is a Life Underwriter Training Council Fellow and holds the Certified Long-Term Care designation. Based in Roseville, California, he works with clients throughout Sacramento and the Bay Area, as well as Southern California, Arizona, Nevada, Florida, Texas, Oregon, and Washington.