Three ways to control your tax future.

How you can achieve tax-free income and disinherit the IRS.

The Seed and the Harvest. I love sharing this story at my seminars to set the table on taxes.

Imagine you are a farmer, and you want to work hard to plant your fields in order to reap the rewards of the harvest to sell for a profit. So, you buy some seed, prepare your field, plant, nurture, water and feed the crops. Then harvest season comes, and you reap the rewards of all your hard work. And then, the TAX MAN comes to collect their fair share. Sounds about right.

BUT what if the TAX MAN came and gave you a choice of how to pay your taxes? What if they said, you could pay taxes on the seed, or you could pay taxes on the Harvest? The successful farmer would most likely want to pay taxes on the seed, since it would probably be a lot less to pay taxes on the seed than to pay taxes on the sale of the harvest.

What's this have to do with you? Let's look at your retirement planning situation.

You work for an employer, or perhaps you are self-employed, and you want to save for retirement? So you join your companies 401k/403b plan, or set up your own 401k/IRA if self-employed. Then you fund it with monthly contributions (the seed), until you are ready to retire, and then you enjoy the fruits of your labor (the harvest) by taking monthly distributions to supplement your retirement.

BUT what if you did what the farmer did, and paid taxes on the contributions instead of the entire pile at retirement, which most likely would be larger? In other words, what if you controlled when and how much taxes you paid, so that when you needed the money the most, you would pay NO taxes?

We are all conditioned to deduct now and pay later. BUT that may not be the best way to go about it.

Here are three alternatives to the traditional way of saving for retirement. And while these may not work for everybody depending on your current tax brackets and/or your health, I have found that most people have taken advantage of one or even a combination of these ideas to control their money.

1. ROTH IRA's and 401k's

Remember the old oil filter commercial…you can pay me now, or you can pay me later? A Roth IRA/401k works like that. You pay the taxes now, BUT your money grows **TAX-FREE** instead of **TAX-DEFERRED** meaning that you will never pay taxes on the gains (as long as the account is held at least 5 years and not withdrawn before 59½), which typically is the bulk of the account. This can come in handy when you retire, because now you get to control the distribution of the money instead of the government. There are no more RMD's (required minimum distributions) at age 72, and under current tax law any income taken from a ROTH 401k/IRA will not affect the taxes you have to pay on tour social security income!!! Yes, the IRS can tax you twice on that money.

2. ROTH/IRA conversions.

What if you have already made significant contributions to traditional 401k's/IRA's and have a substantial amount in your account? No worries, because you may be a candidate for a ROTH/IRA conversion. Meaning, you can convert all or a portion, depending on your tax bracket, to a ROTH account so that all the future growth is tax free. This can be tricky since it depends on when you may need the income, your current tax bracket, and your age, BUT imagine being able to pay taxes one time, and then never having to worry about paying them again in the future. How important would that be to you having **TAX CONTROL** versus waiting to see where taxes will be in the future when you need the income the most after your paycheck stops. What if for example, you could pay 15 cents on the dollar one time, and then never ever have to pay taxes on that money or its future growth ever again. How much would that be worth to you? But like I said, it can be tricky terrain and you really need to confirm with your CPA whether it is right for you.

3. Life Insurance retirement Plans (LIRP's).

Most people think of life insurance as a death benefit, but it can be more than that. And if structured properly, much more than that. Life insurance can be a tax-free supplement to your income in retirement by "overfunding" your premiums, allowing them to grow without taxes while in the policy, and can be tax-free when taken out for income or other needs like college planning if structured properly. There are no income requirements or maximum contributory amounts like there are for 401k's and IRA's, and since these are non-qualified plans (not restricted by IRA/401k rules), you can take money when needed, either as a withdrawal or a "loan" to yourself, as the plan allows, at any time. To be clear, these plans are best suited for someone with a time horizon of at least 7-9 years before taking money, as the cost of insurance can greatly affect early returns. But the amazing upside is you can achieve tax-favored growth, tax-free income when structured properly, and a tax-free stepped-up death benefit to your beneficiaries at your death. If controlling your future tax situation is of utmost importance, and you have a need for life insurance protection for your family or business, then you should consider obtaining a complete illustration of how this concept can benefit you and your family.

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