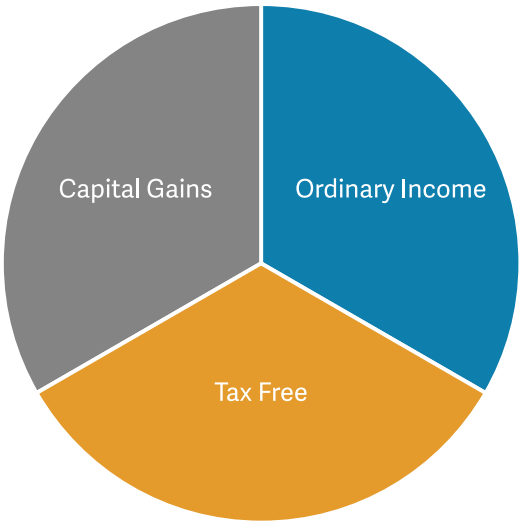
ALP

ASSET LOCATION PLANNING

A plan for reducing taxes when it matters most

centaurus financial inc.



ASSET LOCATION PLANNING MAY HELP YOU SAVE ON TAXES WHEN IT MATTERS MOST, SO YOU CAN DO MORE OF WHAT YOU LOVE!

Are you looking to increase your tax efficiency while also reducing your tax liability risk? Asset location planning (ALP) is a planning process designed to determine the appropriate tax location for each of your assets so you can potentially reduce taxes when it matters most – during the accumulation, distribution, and transfer phases of your life.

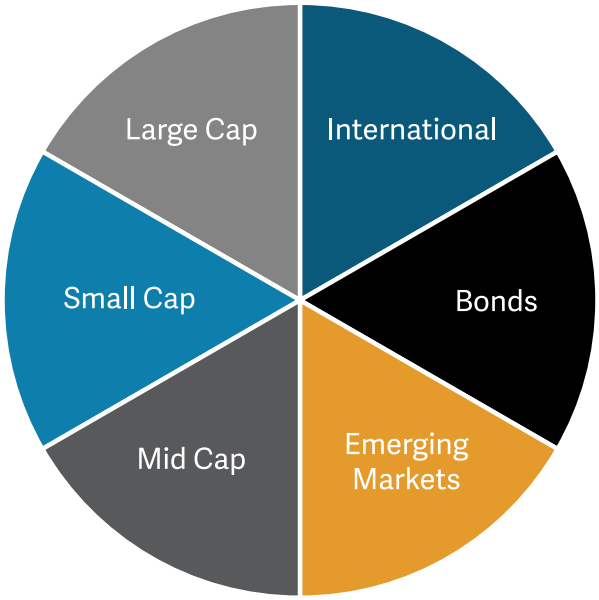
How it works: when you liquidate or sell an asset, there are three ways in which that asset could be taxed: as capital gains, ordinary income, or tax free. Your personalized asset location plan will help determine the correct percentage to invest in each location, which will help position you favorably to pay less taxes as you accumulate, distribute, and transfer your assets.

ASSET ALLOCATION & ASSET LOCATION

Here's how asset allocation and asset location can work together:

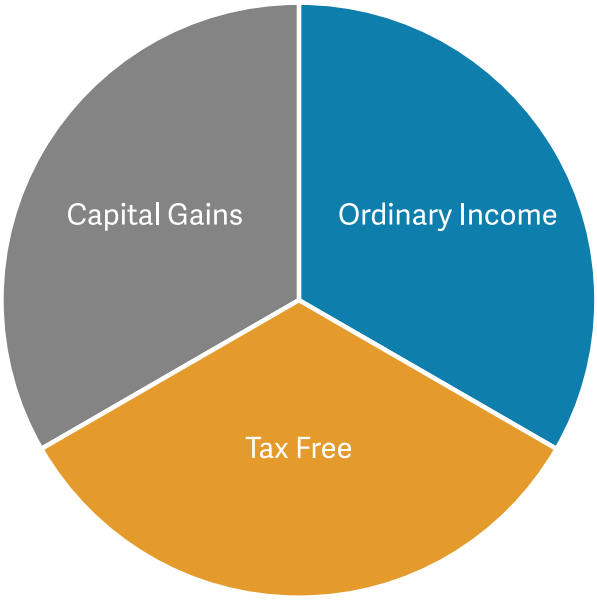
Allocation

Asset allocation is investing in different asset classes to reduce your investment risk.



Location

Asset location is investing in different tax locations to reduce your tax liability risk.



VS.

Asset ***allocation*** is the combination of asset classes in your portfolio, such as stocks, bonds, and cash.

Asset ***location*** refers to the way your asset will be taxed upon distribution. The three locations are: capital gains, ordinary income, and tax free.

Asset location and asset allocation work hand-in-hand to ensure that you are diversifying your portfolio, managing your risks, and investing in a way that is as tax efficient as possible.

Asset allocation, diversification and re-balancing do not guarantee a profit or protection against loss.

THERE ARE THREE STEPS TO CREATING AN ASSET LOCATION PLAN:

1 **Determining the ideal mix of tax-favored benefits**

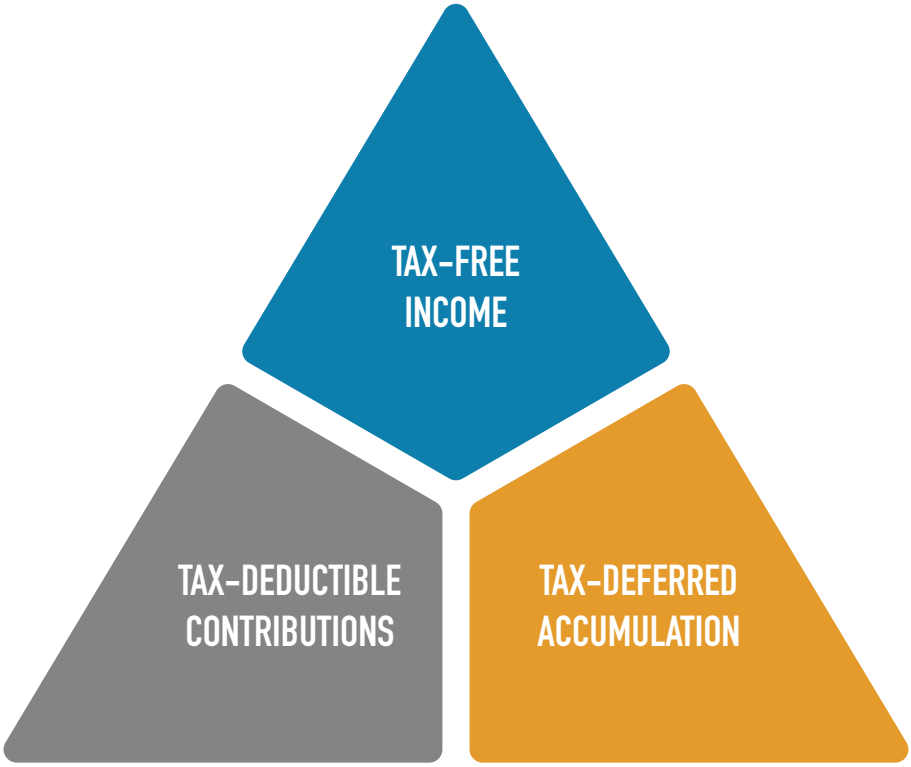
2 **Investing in the ideal tax quadrants**

3 **Tax bracket planning**

TAX-FAVORED BENEFITS

The first step in the asset location planning process is to determine the ideal mix of tax-favored benefits for each of your investments.

The IRS provides three different tax-favored benefits – tax deduction on contribution, tax deferral on growth, and tax-free income on distribution. Unfortunately, you can't get all three benefits within one investment (you have to pay taxes somewhere!), but you can invest in two of the three. Your personalized asset location plan will help determine this mix.



4 TAX QUADRANTS

Once your ideal mix of tax-favored benefits has been decided, we will determine the optimal amount to invest into each location. There are three phases to every investment: contribution, accumulation, and distribution. The 4 quadrants determine how assets are taxed at each phase of the investment.

1

Capital Gains or Ordinary Income Locations

After-tax contributions that are taxable during accumulation and at distribution

- Stocks
- Bonds
- Mutual Funds
- ETFs

4

Tax-Free Location

After-tax contributions that are non-taxable during accumulation and at distribution

- Some Municipal Bonds
- Roth IRAs
- Roth 401(k)s
- 529 Qualified Plans
- Properly structured cash-value life insurance

2

Capital Gains or Ordinary Income Locations

After-tax contributions that are non-taxable during accumulation and taxable at distribution

- Business Interests
- Real Estate
- Annuities (fixed or variable)

3

Ordinary Income Location

Pre-tax contributions that are non-taxable during accumulation and taxable at distribution

- 401(k)
- Pension Plans
- Profit-Sharing plans
- Tax-Sheltered Annuities
- SIMPLE IRAs

Tax Quadrants

Please be advised that this brochure is not intended as legal or tax advice. Accordingly, any tax information provided in this brochures is not intended or written to be used, and cannot be used, by any taxpayer for the purpose of avoiding penalties that may be imposed on the taxpayer. The tax information was written to support the promotion or marketing of the transaction(s) of matter(s) addressed, and you should seek advice based on your particular circumstances from an independent tax advisor.

1: Tax treatment of distributions can vary.

2: All return of principal plus after-tax earnings are non-taxable.

3: Contributions to a Roth IRA for at least 5 years and the withdrawal is made after age 59 ½. If the withdrawal is made before the 5-year period and age 59 ½, income taxes and an additional 10% federal income tax penalty may apply. Other exceptions may apply.

4: Under current federal tax rules, you generally may take income-tax-free partial withdrawals under a permanent life insurance policy that is not a modified endowment contract up to your basis in the contract. Thereafter, distributions are includable in income. Loans taken will be free of current income tax as long as the policy remains in effect until the insured's death, does not lapse or mature, and is not a modified endowment contract. This assumes the loan will eventually be satisfied from income-tax-free death proceeds. Loans and withdrawals reduce the policy's cash value and death benefit, and increase the chance that the policy may lapse. If the policy does lapse, mature, is surrendered or becomes a modified endowment, the loan balance at such time would generally be viewed as distributed and taxable under the general rules for distributions of policy case values. Proceeds payable upon the death of the insured are generally income-tax-free to the policy beneficiary.

TAX BRACKET PLANNING

THE EARLIER YOU START PLANNING AND INVESTING, THE MORE POTENTIAL BENEFITS YOU WILL SEE

After your ideal benefits are determined, and a plan for contribution within the different quadrants has been established, the third and final step to your asset location plan will be to calculate the tax impact of your distribution. We call this tax bracket planning – a strategy we employ to get our clients to think about the tax impact of their distributions down the road while keeping the progressive tax system in mind. Tax bracket planning helps you to evaluate which investment location to withdraw from in efforts to minimize the taxes you pay.

Your total income will be taxed based on the location that your withdrawals come from, for example: if your ordinary income for the year is $350,000, you will be taxed 10% on the first $20,550, 12% on your income from $20,551-$83,550, 22% on your income within the next bracket, and so on (2022 tax brackets for each location reflected below):

Ordinary Income Tax Brackets (Married Filing Jointly)	Capital Gains Tax Brackets (Married Filing Jointly)	Tax Free
10% - $0-$20,550 12% - $20,551-$83,550 22% - $83,551-$178,150 24% - $178,151-$340,100 32% - $340,101-$431,900 35% - $431,901-$647,850 37% - $647,851 and over	0% - $0-$83,350 15% - $83,351-$517,200 20% - $517,201 and over	0%

Ordinary Income Tax Brackets (Single)	Capital Gains Tax Brackets (Single)	Tax Free
10% - $0-$10,275 12% - $10,276-$41,775 22% - $41,776-$89,075 24% - $89,076-$170,050 32% - $170,051-$215,950 35% - $215,951-$539,900 37% - $539,901 and over	0% - $0-$41,675 15% - $41,676-$459,750 20% - $459,751 and over	0%

Now that we have a better understanding of tax brackets, let's take a look at an example using Ivan and Andrea Smith. The Smiths recently retired and will need to withdraw $350,000 for the year from their investments in order to maintain their current lifestyle.

If the Smiths had never put together an asset location plan, they may not have been investing in all three tax locations during their working years, which would mean they may only have the ability to pull their retirement income from one location: the ordinary income location. In this case, they would end up paying $72,463 in taxes, based on current tax treatment.

WITHOUT ASSET LOCATION PLANNING

ORDINARY INCOME ONLY
$350,000 TOTAL

	FIRST $20,550	NEXT $63,000	NEXT $94,600	NEXT $161,950	NEXT $9,900	TOTAL
Tax Rate	10%	12%	22%	24%	32%	
Taxes Due	$2,055	$7,560	$20,812	$38,868	$3,168	**$72,463**

Effective tax rate = 20.7%

In example 2, the Smiths met with a financial professional and, based on their asset location plan, determined an optimal mix of investment locations. Since they had been investing in all three tax locations, they now have the option to withdraw their $350,000 from each of the three locations. In this case, they can take $150,000 from the ordinary income location, $100,000 from the capital gains location, and $100,000 from the tax-free location.

WITH ASSET LOCATION PLANNING

	ORDINARY INCOME $150,000 TOTAL			CAPITAL GAINS	TAX-FREE	
	FIRST $20,550	**NEXT $63,000**	**NEXT $66,450**	**$100,000**	**$100,000**	**TOTAL**
Tax Rate	10%	12%	22%	15%	0%	
Taxes Due	$2,055	$7,560	$14,619	$15,000	$0	**$39,234**

Effective tax rate = 11.2%
45.9% Savings

Total tax savings with asset location planning = $33,229 (45.9%)

By determining their tax benefits, finding the ideal tax locations, and tax bracket planning, Ivan and Andrea were able to reduce their effective tax rate from 20.7% to 11.2%, amounting to a savings of $33,229 (45.9%). This gives them the opportunity to spend more on what they love – their grandkids, travel and adventure, golf, and anything else!

With your personalized asset location plan, you can determine how best to reduce your taxes based on your goals and objectives.

IS AN ASSET LOCATION PLAN RIGHT FOR YOU?

If any of the below criteria describes you, an asset location plan is likely a good fit for you.

You are a high income earner and pay high tax rates

The higher your tax rate, the greater benefits you may have with asset location planning.

You want more control over your investments

If you're looking for a more proactive approach to your investments, an asset location plan may help you find the best method to lower your tax rate and pay less taxes.

You don't want to worry about retirement

Retirement is supposed to be fun, not anxiety inducing. An asset location plan may help you determine exactly what you will need in order to retire on your own terms.

You want to enjoy more of your life and hobbies

By paying less taxes, you will have the option to do more of what you love!

GET STARTED TODAY WITH YOUR PERSONALIZED ASSET LOCATION PLAN

START INVESTING IN THE RIGHT LOCATIONS TO HELP REDUCE YOUR TAX LIABILITY RISK, AND GET BACK TO DOING WHAT YOU LOVE!

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