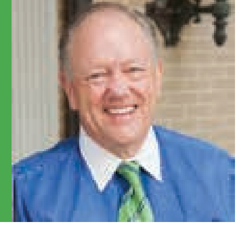
FINANCIAL:

Retire in a Zero Tax Bracket



By Randy C. Cowell, ACT Financial

NOW THAT I HAVE YOUR ATTENTION, LET'S START BY SHEDDING LIGHT ON THE GRIM FUTURE OF TAXATION IN AMERICA.

Hop in the De Lorean and let's go to 1980. Seymore Durst, a New York Real Estate magnate, did a few infamous things pointing to our rising national debt. Frustrated politicians were unwilling to take action, in 1989 he built a National Debt Clock near Times Square trying to jolt the country to action. Still ticking 30 years later, the National debt eclipsed the 21 trillion-dollar mark. That's a 21 followed by twelve zeros! Hop back in and let's stop in 2004. Allow me to introduce you to David M. Walker. Walker served under Bush 41 as one of two trustees for Social Security and Medicare. He also was the Comptroller General and CEO of the Government Accountability office under Clinton. In other words, he was the CPA of the USA under two presidents from opposite sides of the political tracks, noted as a well-respected nonpartisan and apolitical public servant.

Armed with statistics and the fact that the first of 78 million baby boomers would be ready to tap into Social Security in a few years, Walker sounded the alarm where he could. For Walker, the writing was on the wall. In 2005, with the assistance of several financial heavy weights, such as, Federal Reserve Chairman Paul Volker, they began crisscrossing our nation on a campaign called the "Fiscal Wake-up" tour. Their mantra: "Taxes could and most likely will have to double in the future to keep our country solvent." In 2008, David Walker resigned from public service to continue his crusade. In 2010, he wrote Comeback America-Turning the Country Around and Restoring Fiscal Responsibility. It's an easy read and you won't want to put it down.

Now that everyone is in a good mood, let's jolt our baffled selves back to 2019, where we can discuss some strategies to potentially buffer/insulate you and your family from the oncoming taxation freight train headed our way.

Provisional Income

Not familiar with the term? Don't feel bad. Most Americans do not understand how the Internal Revenue Service uses provisional income to calculate the taxation on their Social Security income. What is considered provisional income? All 1099 income and all ordinary income. That's code-speak for pretty much everything not "qualified." In addition to that, income is anything from your pension and any withdrawals from your retirement plans.

So, if you don't want to pay taxes AND you don't want 85% of your Social Security benefit to be taxed, what can you do now to get to a lower, dare I say it, maybe even a zero tax bracket? I believe the first step is recognizing what a truly tax-free investment* looks like.

Here are the four rules that must be met to truly qualify for tax free status:

- It must not be taxable at the Federal level.
- It must not be taxable at the state level
- There cannot be capital gains taxation associated with distributions
- Income from the investment CANNOT be included as provisional income.

Even a municipal bond, if purchased out of state, can fail three out of four requirements. Would it surprise you to know there are only two truly tax-free investments?* Roth IRA's** and specially designed life insurance***. Whether it is a muni bond, mutual fund, rental property, or the thousands of other investments* available, these four rules must apply to qualify as a truly tax-free investment*.

- *If David Walker is right and tax rates must double in the future to pay for our debt and all the unfunded entitlements, how prepared are you and your portfolio to weather that storm?*
- *Knowing that unless congress changes things, at the exact stroke of midnight, January 1, 2026, tax rates are going up– are you going to take advantage? (i.e. taxes are on sale for the next 8 years)*
- *If you could receive your Social Security tax free and perhaps your qualified retirement income tax free, would that be a conversation worth having?*

The concepts and strategies mentioned in this article are guidelines and it is always recommended that the reader(s) seek wise legal, accounting, and investment advice. It goes without saying that the tax code we are dealing with today could change. True, but there is a history of legislative changes that over the years have "grandfathered" certain investment products. Life insurance is one of those investments that historically has been grandfathered.

Future tax code changes are inevitable. The treatment of products and the applications surrounding them are subject to legislative change. Until these things change, wise strategic planning is a necessity.

For additional information on how to get to the 0% tax bracket in retirement, please call our office at **(918)664-0081.**

RANDY C. COWELL, *MS, LUTCF, CFP®, CRPC®, ACT FINANCIAL SERVICES, INC.*

Randy is President and Senior Strategist of ACT Financial Services, Inc in Tulsa, Oklahoma. He is a Certified Financial Planner®, Chartered Retirement Planning Counselor®, Investment Advisor Representative of HTK, Inc. and recognized as a Fellow by the Underwriters Training Council (LUTCF). His expertise combined with a unique "Biblically-based" philosophy, has served his clients well for over three decades. Randy can be reached at (918) 664-0081 or by email at rcowell@htk.com.

*"Investment" as used in this article is a blanket term for any vehicle in which you can save money. Examples would be saving accounts, life insurance, stocks, bonds, mutual funds, etc. You get the idea.

**There are income restrictions that could prevent one from participating in a Roth IRA. There are strategies that could be implemented to take advantage of the Roth and Roth conversion so speak to your financial adviser, tax adviser, and group benefits coordinator about whether you qualify for a Roth IRA or Roth rollover.

***Life insurance that is characterized as a Modified Endowment contract does not receive the same tax treatment as a Non-MEC version. Please consult your tax adviser for further details on Modified Endowment life insurance. Registered Representative of and Securities and Investment Advisory Services offered through Hornor, Townsend & Kent, Inc. (HTK), Registered Investment Advisor, member FINRA/SIPC, 4111 S. Darlington Ave., Suite 800, Tulsa, OK 74135, (918) 664-6511. ACT Financial Services, Inc. is unaffiliated with Hornor, Townsend, & Kent, Inc. HTK does not provide tax or legal advice. 2247317RM-Sep20