PAY NOW OR PAY LATER?

SALES TAXES.

INCOME TAXES.

ESTATE TAXES.

CAPITAL GAINS TAXES.

Paying taxes is virtually inescapable. So, taxes are about "when," not "if." And building a strategy around "when" can be a powerful move.

You can divide "when" you pay taxes into two high-level categories:

Taxed now

You pay taxes on realized gains or interest immediately. This includes products like CDs, brokerage accounts and mutual funds if they're held outside of a retirement account.

Taxed later

You pay taxes on these tax-deferred accounts when you withdraw money. Many retirement accounts like 401(k)s and IRAs fall into this category.

DOES IT MATTER IF YOU PAY TAXES NOW OR PAY TAXES LATER?

Yes, some "pay taxes now" products allow for qualified tax-free withdrawals later. So even though you pay taxes up-front, your qualified withdrawals — including your gains through market returns or interest — are tax-free, as long as you follow the rules. Roth IRAs and some types of life insurance can give you this tax-free income.

PRODUCT	TAXED NOW OR TAXED LATER?	TAX-FREE DISTRIBUTIONS OR WITHDRAWALS?
CDs, securities, investments (non-retirement accounts)	Taxed now	No. You pay taxes on interest, dividends and realized gains
401(k)s, IRAs, 403(b)s	Taxed later	No. Taxed as ordinary income
Roth IRAs, some life insurance policy loans and withdrawals	Taxed now	Yes. Qualified withdrawals are tax-free

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A RETIREMENT INCOME STRATEGY

"Bucketing" money by tax treatment is a common retirement income strategy. Like an investment strategy that diversifies across different types of assets, tax diversification can help give you more flexibility and control over your money.

Taxed now | **Taxed later** | **Taxed now, with tax-free income later**

Emma, 70

Emma, 70, relies on Social Security, a traditional IRA and a Roth IRA for income. This year, she withdrew almost $12,000 from her traditional IRA to replace her roof. Because that money counts as ordinary income, she may end up in a higher tax bracket. To avoid that, she uses money from her Roth IRA — which isn't counted as ordinary income and is tax-free — for her living expenses for the remainder of the year.

Please note this is a hypothetical example.

DO YOU BELIEVE TAXES WILL GO UP OR DOWN?

One of the reasons to put money into a tax-deferred retirement account is because you believe your taxes will be lower after you're retired. While you may be earning less money, you should still think carefully about whether you'll likely be paying less in taxes. If you have doubts, or if you want the financial peace of mind that comes with knowing your withdrawals will be tax-free, contact a financial services professional to discuss your options.

Source: https://fi-advisors.com/resource-articles/item/43-the-tax-diversificatrion-triangle

Life insurance guarantees are backed by the financial strength and claims-paying ability of the issuing insurance company. Life insurance typically requires health underwriting and, in many instances, financial underwriting. Policy loans and withdrawals will reduce available cash values and death benefits, and may cause the policy to lapse or affect any guarantee against lapse. Additional premium payments may be required to keep the policy in-force. Withdrawals are generally income tax-free, unless the withdrawal amount exceeds the amount of principal paid. Our firm does not provide legal or tax advice. Please consult a legal or tax professional.

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