Dealing with Increased Taxation in the US

In light of the increase in taxation and possible future increases (see attached historical tax chart… top tax rate has been as high as 90%...today's 40% tax rate may look like a bargain in the future) we should ask ourselves the following questions.

- What have I done to reduce income tax?
- What can I do to minimize future taxation on growth of after tax dollars?
- What plans do I have to create tax-free income?

One important caveat as you consider these questions… never let the tax tail wag the investment dog! You pay attention to taxation but must focus on your true long term goals whether it is growth, protection of principal or both. Items for review and consideration:

- Connect with your accountant to make sure you are not blindsided by any additional taxes owed.
- Begin to build out tax managed funds within your existing taxable investment accounts.
- Restructure current retirement plan to allow the business owners the largest possible contribution.
- Utilize life insurance as an asset that provides a tax free death benefit but also allows you tax-free access to your tax deferred cash value growth via the loan mechanism (any outstanding loan does reduce death benefit). This is true as long as the life insurance doesn't become a Modified Endowment Contract (MEC) would not qualify for this treatment. Any loans would be taxable to the recipient with a MEC.
- Incorporate annuities (aggressive or conservative depending on your risk tolerance) creating tax deferred growth and lifetime income you (and your spouse) cannot outlive.
- Consider taking advantage of Roth option in your 401k plan (if available, no income limits prevent one form participating) to create tax free income at retirement.
- Contribute to nondeductible IRA then convert to Roth if your income limits prevent you from establishing a Roth directly (currently no income limits on conversions).
- Reduce possible estate taxes by reviewing all of the wills and trusts documents making sure assets are protected for taxation and/or are appropriately gifted to the next generation and/or charities.
- Take advantage of the large amount of gifting available to you now ($5,490,000 each spouse, in 2017). That is $10.98M of lifetime exemption plus the annual gifting that is allowed ($14k (x2 if married) to as many people as you want).
- Review beneficiaries on all of your insurances, 401ks and IRAs to be sure they are accurate and most tax efficient.
- Consider adding tax efficient investment real estate into your portfolio.

[1] Footnote American funds capital gains distribution as an example
https://www.americanfunds.com/resources/tax/capital-gains/index.html

4
CAUTION: Loans taken against a life insurance policy can have adverse effects if not managed properly. Policy loans and automatic premium loans, including any accrued interest, must be repaid in cash or from policy values upon surrender, lapse or the death of the insured. Repayment of loans from policy values upon surrender or lapse can trigger a potentially significant tax liability and there may be little or no cash value remaining in the policy to pay the tax. The policy will lapse if loans become equal to the cash value while the policy is in force and additional cash payments are not made.

Northwestern Mutual does not offer tax advice.