

Managing taxes

Five major events critical to your financial freedom

Major financial events are usually very heavily taxed. It is therefore critical to sit down with your wealth management professional to pre-plan for your major financial events.

A truly great wealth manager will have the pulse of your future major financial events and will help you plan for them. You want to avoid asking your professional for planning advice after the event has occurred.

Many of the strategies we implement to help clients must be in place prior to the financial event, in some cases the strategies must be in place years if they are to be effective.

Five major financial events that can dramatically affect you from a tax, portfolio, net worth and lifestyle stand point:



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1. Change in marital status: A marriage or divorce can have a direct impact on your income taxes and net worth. We recently met a referral from one of our clients who was planning on settling for the house as well as some retirement money, as her part of the seven figure estate she would end up with. We advised her that without some liquid assets she would not be able to afford the house and the tax and penalty costs of tapping the retirement assets would be ridiculous.

Planning the split or ownership of assets may be critical to your financial future. When divorcing should you take the house, the savings or the 401(k)? In marriage should you put a prenuptial agreement in place and should you create a new living trust with your new spouse? How will these choices affect the taxes you will be paying?

2. Retiring and generating income from your investments: Depending on your age you may have a little known strategy available to you to tap your 401(k), without penalties, prior to reaching age 59½. If you have stock options,

At a glance

1. Taxes are one of the biggest expenses eight- and nine-figure estates incur.
2. Great wealth advisers will have your pulse and pre-plan for your future major financial events.
3. Without pre-planning many of your most effective tax reduction strategies are obsolete.

then a diversification and tax minimization strategy is probably needed. How, when and where you tap income from is another factor that can greatly affect your taxes.

The previously mentioned little known strategy for tapping 401(k) money cannot be implemented after you roll over your 401(k). If you ask your adviser for planning tips after you rollover your 401(k), you may be throwing away a critical income planning strategy.

3. The sale of a business or real estate: How you hold ownership of your business may dramatically affect the amount of taxes you pay on the proceeds of the business sale. Furthermore, coordinating the sale of your commercial real estate, primary residence or your secondary home may also mean a substantial difference in the amount of taxes you pay.

We recently discussed a Charitable Remainder Trust with the children of entrepreneurs who are cashing-out. We helped them understand the process of gifting the business to the trust, selling it, avoiding all capital gains and income taxes on the sale, generating a substantial income to the parents with major income tax deductions and avoiding the 45-plus percent estate taxes on the business value.

Wealthy families should seriously consider planning and implementing advanced strategies such as family limited partnerships and irrevocable trusts strategies. These strategies could literally save your family from paying millions of income taxes, capital gains taxes and estate taxes. Not to be redundant, but such strategies must be implemented before the financial event occurs.

4. The death of a spouse or parents: If you inherit a large IRA, 401(k) or pension plan, you have options available for how to have the money distributed.



Taking a one time distribution from a substantial retirement account could result in the government inheriting more than half the account value while you become the minority beneficiary!

Income taxes can exceed 40 percent and estate taxes start at 45 percent, their combined effect can ravage your large IRA inheritance.

5. Philanthropy and charitable contributions: Let us say you wish to gift \$1 million of your \$28 million estate to the Leukemia Society and Children's Hospital. Do you know which assets

would maximize the gifting value of your estate? Should you gift IRA type assets, real estate or cash? Should you start gifting now or after you pass away?

Remember, keep open communications with your advisers, help them understand what you truly want to achieve. Wealth is but a tool, how you utilize your wealth is where you can find true meaning in life.

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