



THE FIVE TAX ENVIRONMENTS

By strategically positioning income in the most advantageous tax environments, individuals can get a head start to reaching long-term goals. It's important to understand how these environments are defined in order to use them. We recommend educating yourself on the options and consulting a tax professional who understands new and changing tax laws to address your unique situation.



PERSONAL: The personal tax environment covers the income you need for basic human necessities like food, shelter, entertainment and non tax-deductible debt payments. Without any action, this is where all your income defaults to and this is the environment where each person spends from.



CORPORATE: As a business owner, this is an advantageous tax environment for excess income. This can be done with an S-Corp, C-Corp or LLC perks and used for general corporate deductions like your cell phone, car or other necessities you can run through the business.



TAX DEFERRED: When saving for retirement, this is the environment you should consider using as your savings. Examples are pre-tax 401(k) contributions, SEP plan contributions and defined benefit plans. This is where your money isn't taxed upfront but may be taxed when it's coming out. It can be advantageous in investment plans to have more money in your pile and take on tax burdens later when you begin distributing money as income from it.



TAX ADVANTAGED: Examples in this category include things such as home mortgage interest, charitable contributions and residential property taxes. These can add up to help reduce the tax burden by allowing individuals to write off certain amounts.



TAX FREE: A tax-free environment is a unique option for additional excess income and could be a good fit for some individuals. Examples are municipal investments, 529 plans, Health Savings Accounts and Roth IRAs. In certain instances where taxable income may be low, due to age, starting or buying a practice or tax saving strategies implemented by an advisor, it may make sense to use this environment as a primary versus a supplemental tool. Consult your advisor for personal advice.