What Is The Highest Taxed Asset Someone Can Own?

According to Michael D. Reese writing in the July 7th issue of The National Underwriter, it is the money in IRA, 401k and other qualified plans. This money is the highest taxed asset because it can never be anything but ordinary income, which is taxed at the highest tax rate.

He says there was 16.6 trillion dollars in qualified plans as of the end of 2006. This means that the IRS has an amazing amount of money they WILL tax many years into the future.

Are tax rates going up or down in the future?

If you think tax rates are going up and you have a bunch of money in qualified plans, you have a big problem to deal with and you may have to deal with it sooner than you think. The IRS can change the rules of the game anytime they wish.

So how does someone escape from this tax monster?

The best way is probably to stop feeding the monster with additional unmatched contributions. There is no logical reason to put more money into these plans than what is matched by your employer. Your actual tax bracket is probably much lower than you think, so you really do not need to defer taxes today if you can avoid future tax on money. Most people I talk to are in less than a 15% bracket for Federal Income tax.

Only a small percentage of people actually benefit from deferring taxes on income.

But the IRS does nothing to stop financial guru's and plan administrators from promoting the idea that everyone benefits from paying tax later on income. They want to be able to control your money and get a steady stream of income and taxes from it.

If you pay taxes now on income and don't put it into these plans, the IRS and the plan administrators have no control over it – ONLY YOU DO!

There is also something else you can do to escape this tax monster. Start drawing the money out now. There is even a little known loophole in the IRS regulations that allows people under 59 ½ to avoid tax penalty on early withdrawals. There are a few hoops to jump through on this, but it works out to be a good option for many people. I would have to crunch the numbers to figure out if it works for you.

Now what do you do with the money to make sure the IRS doesn't get any more than they have to?

Put the money somewhere where it will never be subject to income tax again and where there are no ridiculous rules to deal with!

There is no better place I know of than a BOY plan. I personally used this tax loophole to draw money out of my IRA plan to fund a BOY plan.

There is also another big benefit of getting the money out of qualified plans now. You now make this money available for your use right away. It is amazing how many people are forced to take “premature” withdrawals from qualified plans and pay the tax penalty because they had no other way to deal with a financial emergency. I confess that I have done this. It was a great lesson for me about why large amounts of money should not be tied up in qualified plans.

By the way, how is your qualified plan doing these days?

Most people put their money in company stocks and market related mutual funds. The sad truth is that these accounts have performed very poorly over time. For many people, they have losses in excess of the amount of “free” money on the employer match and even their own contributions.

Years ago I thought that the best way to save was in qualified plans. I diligently saved whatever the maximum contribution was and only learned years later that I had made a big mistake. It will now take me years to get rid of my “tax monster”. I hope I can help you do better than I did.

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