Cut Your TAX in 2010

And Preserve Your Legacy



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Chapter 2

You're Richer Than You Think

"Over and over again the Courts have said that there is nothing sinister in so arranging affairs as to keep taxes as low as possible. Everyone does it, rich and poor alike … for nobody owes any public duty to pay more than the law demands."

–Judge Learned Hand

You didn't dine on caviar while breakfasting from your yacht this morning, but the government doesn't care. Uncle Sam still thinks you're rich. That's because the government doesn't look at your cash the same way you do.

Why Uncle Sam thinks you're rich

When was the last time you really took stock of your assets? You may be surprised when you do. Make a simple list of them and then add them up. Here's an example:

- IRA, 401k: $700,000
- Brokerage (investments): $300,000
- Life Insurance: $200,000*
- Property (your home): $600,000
- CDs/Savings/Bank Accounts: $200,000
- Annuities: $100,000
- TOTAL: $2.1 million

** Consider the death benefit of your life insurance, not the cash value.*

All of a sudden, you may realize you're a multi-millionaire after all. Congratulations!

But then why don't you feel rich? Because that's not free money; it's money you earned through blood, sweat, and tears. And it's money that you don't have easy access to because it is tucked into investments and assets. This creates a psychological barrier for most people that prevents them from spending their money foolishly. There are two well-known sayings that come to mind to help explain this point:

1. "People usually drink the milk from the cow rather than slaughter the cow." In other words, if you have a bank account worth $500,000 that is paying 2 percent interest, you will try to live on the 2 percent rather than touch the $500,000.

2. "The wealth that the kids receive is far more than the wealth you give up." That's because people look at their bank accounts and their investments alone as their **net worth**. They are more emotionally connected to house value and life insurance and often overlook the true financial value of those assets.

There will be times that you need to use these investments for important purposes: as much needed retirement support or as emergency funds to help children or grandchildren.

However, your reason for withdrawing is not usually a concern to the government. Whenever you cash out your assets, the government considers it money in your pocket.

Change the way you view your money

We can't necessarily blame Uncle Sam for thinking this way. For all the government knows, you may as well be withdrawing that money on a wild weekend in Vegas. And if you're going to throw that money away, Uncle Sam would like a share of it first. Plus, a good portion of that money is investments that have appreciated over time. That money hasn't been taxed yet. You can bet the government doesn't like the idea of you "wasting" money that has yet to be taxed.

There's good news, though. The government isn't entitled to as much of your money as you have been willing to share. It is well within your rights to structure your assets so that you can withdraw and use your own money tax free. Prove to the government that you're responsible with your money and the government will let you keep more of it.

Divide your money and earmark it for:

1. You (and your spouse)

2. Your future

3. Your legacy (kids and grandkids)

By doing this, you are essentially dividing that money into silos. Each silo contains a stockpile of funds for different benefactors at different times, thereby reducing your tax burden. Some of it you can use now or in the near future to fund your retirement or to cover other living expenses. Some of it can safeguard your future and be used as funding for disability or long-term health care. Plus, you'll want to set aside whatever you would like your children to inherit



and, separately, what you would like to pass on directly to your grandchildren.

This isn't "playing the system." You're simply proactively organizing your estate using the best tools available. This book will give you the basic steps for how to do it.