Dear Lev

Happy New Year.

I thank you for your input. What I like about you is that you have no emotional ties, so you don’t need to ponder; you give me a quick financial conclusion.

To refresh your memory, I want to maximize net worth/ ROI with a 30 year tax plan, so ROI is the target.

I am 60, retired, head of household, 1 dependent who is 3 years old. I have no state tax, live in South Africa; have foreign IRA’s which have no USA tax liability.

**Assets**:

Social Security options: $9,000 at 62 ranging to $13,400 at 70

$300k IRA

$300K annuities ($200k growth and $100k base)

$800k realized gains

$200k pending gains

**$1.6m** USA net worth, held by Edward Jones

-$800k pending

-$800k realized

**Plus $300,000** to be inherited from my mom, who is 87

-$400k is traded and $1.2m is in unit trusts / mutual funds

-9% ROI is the 30 year average

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I either cash out $600k in IRA/ annuities or defer the tax and have a $1.8m tax liability in 20 years. *So I am cashing out, need the most effective cash out plan*, *I think 3 years gives me the best ROI and I need it confirmed or corrected.* (*Please give me your comments, just for my education)*

**2015:**

I converted a $100,000 to Roth and will pay the tax on top, so 100% of the IRA amount was converted. I have $200,000 IRA remaining to convert

*Is the following tax calculation close for 2015 tax return or how far off is it?*

Short Term (assets held 1 year or less) **-$14,411.75**

Long Term (held over 1 year)                 **-16,128.61**

Total                                                   -$30,540.36

Dividends Qualified (Q)                         **$18,538.56**

Nonqualified (N**)                                          580.80**

Total                                                    $19,120.95

Partial Conversion To Roth IRA           **$101,088.56**

-head of house hold with a 3 year old dependent

## Tax Amount Owe: $17,436

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| |  |  | | --- | --- | | **Total Income** | **$89,579** | | Total Deductions | $9,250 | | Total Exemptions | $8,000 | | Taxable Income | $72,329 | | **Regular Taxes** | **$17,436** | | Alternative Minimum Tax | $0 | | Net Investment Income Tax | $0 | | All Tax Credits | $0 | | **Total Tax with Credits** | **$17,436** | | Marginal Tax Rate | 25% | | Tax Pre-payments | $0 | | **Tax Amount Owe** | **$17,436** | |

-$200k Roth conversion is the best ROI, so convert it first

- $300,000 annuity ($100,000 is the base amount) and if I don’t cash out now, then I would never cash out, since it becomes better to borrow against it, but the ROI on total invested is less and my heirs would pay the tax. If I cash out now, with the base amount, the effective tax rate is 13%. Ie: $40,000 tax on $200,000 growth, and $40k/ $300k = 13% *So cashing out now is a better ROI. (your comment?)*

***So the question becomes, how quickly do I cash out $500,000 with a $400,000 tax liability?* ($200k IRA and $200k annuity, with a $100K base amount)**

**Yearly**

**cash out tax comment**

$100,000 15,000 -$45,000 yearly growth on funds, so would take 5-6 years = **$90,000** tax.

$150,000 $28,000 - $40,000 growth, would take 3 years = **$84,000 tax**.

$200,000 $41,000 - 2 years at $**82,000 tax** / gains at 20% tax (would have $30,000 of annuity

growth to cash out in the 3rd year)

$210,000 $44,000 - 2 year at **$88,000** tax, so the last $10,000 is at 30% tax rate.

**2016: I think**

*-convert $200,000 to Roth NOW, at the end of year based on gains and annuity growth, maybe cash out a little more.*

**2017:** age 62

*– cash out $200,000 annuity growth and start Social Security is the best ROI*

**-SS: $9000/ year and $7,650 is taxable**.

-SS growth is 3% per year vs every year delayed is 8% SS growth.

-invest at 8% ie: $9,000 x 8% = $**9,700** at 63 vs $**9,600** SS at 63. (*ROI better starting at 62)*

**-start at 62 vs at 70:**

62: have $80,000 invested at 70 = $7,000 yearly growth + $11,400 SS = $18,400

-$1,400 SS tax + $1 gains tax = $2.4 tax = $16,000 take home

VS

70: start at $15,800 SS ($13,400 taxed at $2 tax) = $13,800 take home

*(COLA is less than 2% recently, but I think the main benefit is the lower tax rate by starting early)*

**2018: age 63**

After $85,000 tax on Roth and annuities asset value will be the same. I will have $100,000 less realized gains and $100,000 more pending gains.

**Assets**

$300,000 Roth

$300,000 annuities converted to realized unit trusts

$700,000 realized gains ($100,000 was used for tax)

**$1.3m realized**

$300,000 pending gains ($100,000 increase)

**$1.6m total**

*$120,000* annual growth in gains liability (9% on $1.6m)

**Income at 63**

**$75,000 at $350 tax**

9,000 SS ($7,600 taxable)

66,000 gains

**Income at 70:**

**-3% annual inflation for 7 years**

**-7 years at $400 tax** = ***$2,800 tax***

**Age 70: $95,000 income at $650 tax**

-$75,000 taxed at $650 tax (due to SS increase)

-$20,000 comes from realized gains (so average $10,000 / year from realized gains x 7 years =

$70,000 draw down from realized gains)

*-$6,500 tax in 10 years to age 80*

**Income at 80**

**$124,000 income at $5,000 tax**

-$75,000 taxed at $5000 (due to SS increase and lose of dependent)

-$50,000 comes from realized gains (so $25,000/ year x 10 years = $250,000 draw down from realized

gains)

*$50,000 tax in 10 years to age 90*

**Income at 90**

**$170,000 at $5,000 tax**

$75,000 taxed at $5000

$100,000 comes from realized gains ( so $50,000/ year x 10 years = $500,000 draw down from realized gains)

**Summary: Between 60 and 90:**

-medium income is $100,000

-in 30 years take home $3m at *$60,000 tax ($*3k to 70, $7k to 80, $50k to 90)

-take home $2m in taxed gains and $1m in realized gains (have $300,000

remaining in realized gains)

-$3m take home vs *$60,000 tax + $100,000 tax from 60 to 63 = $160,000 tax*

*- $3m take home / $160,000 tax = 5% tax rate*

**Comments:**

*-these are rough numbers, but in concept after 64 my income will be*

*gains and dividends :*

Put it another way:

*-for 30 years I deferred tax, took gains and reinvested*

*-have:* ***$800k realized and $800k pending***

*-So, cash out income now*

*-have:* ***$1.4m realized and $200k pending***

*- for the next 30 years live on gains and $1.4m realized income*

*-defer tax with 7 year index fund investments*

*-at death, the gains are inherited at market value*

***-So cash out $400,000 IR and annuities ---3 vs 2 years***

***-$200,000 looks better to me (what do you think?)***

**Child tax: I don’t understand it.**

*If she inherits $300,000 with $24,000 annual gains, how does that impact me?*

*She files a return and pays how much tax? There is no skip tax mom’s assets are*

*under $2m.*

She will get a $60,000 IRA and I can convert mom’s IRA to Roth for $20,000 tax. That’s

30% tax but I think it’s a no brainer. Mom would get $3,000 annual tax savings, (reduce

her tax by 50% and my child would get 70 years of tax free RMD, at 70 save $10,000

yearly tax, in today’s value). *What do you think*?