

Tax Planning 101 -- How to Use Current Tax Code to Optimize Your Wealth Planning

1. 6-month Emergency Fund

- At any time, you will need to have enough money saved to cover at least 6 months of necessary living expense in case any unpredicted events happen. This money has to be 100% liquid.
- Any amount over that will be not wise because the money will not earn you much return. You should invest the extra money in some other vehicles.

2. Life Insurance Protection for the Family

- An adequate amount of life insurance is an integral part of anyone's financial planning.
- Term life insurance is very affordable, you pay a fixed premium within the term (10, 20 or 30 years) and the insurance company will pay out the death benefits to your beneficiary tax free when the unthinkable happens.
- Guaranteed Universal Life with Long Term Care rider is the next step, if you have the extra budget. It is more expensive, but it does have not term restriction, which means the policy will payout whenever you pass away and it is guaranteed. Long Term Care is also a very hot topic, given people are living longer and needing more care.
- A blend of Term and Perm is often the best solution for families which combines protection and tax-free wealth accumulation

3. Pre-tax Investments

Your Current Saving = Contribution Amount x Marginal Tax Rate

- A. 401K (403B) – annually up to \$18,500 (\$24,500 for 50 and over)
 - B. Traditional IRA – annually up to \$5,500 \$6,500 for 50 and over)
 - B. SEP or Single K – annually up to \$55,000
 - C. HSA (FSA) – annually up to \$3,450/\$6,900 (single/family)
 - D. Home Purchase (Deductible interest up to \$750K principal and Property tax)
 - E. Defined Benefits Plans for smaller employers – Average \$133,000 annually!
- But you do have to pay tax when you take the money out when you reach 59.5 and you pay ordinary income tax rate on all withdraws (principal and gaining). And, you are forced to take it out gradually when you reach 70.5

4. After-Tax Investments that will grow Tax Free
 - A. Roth IRA – You bite the bullet today, forgo the tax benefit today, but reap the benefit when you withdraw the money. Principal can be withdrawn anytime without penalty or tax, gain can be withdrawn tax free after 59.5.
 - B. Backdoor Roth IRA – if your income is over certain threshold (\$135,000 for single filers and \$189,000 for MFJ), you are not eligible for a regular Roth, you can then open up a non-deductible traditional IRA first and roll it into a Roth IRA the next day.
 - C. Mega Backdoor Roth IRA. – You have a chance to contribute up to \$36,500 annually!
 - D. Education Funds – Illinois Bright Start. Save 4.95% on State Income Tax up to \$495/990.
 - E. Permanent Life Insurance – Tax Free Accumulation and Tax-Free Distribution Whole Life vs Universal Life (Variable & Indexed)

5. After-Tax Investments that will grow Tax Deferred
 - A. Real Estate
 - Real Estate is the best investment under the current tax code.
 - Depreciation is the tax code that made real estate investment so sexy. Paper loss will defer your tax.
 - Like Kind Exchange can further defer your tax until you die and your children will take step up basis.
 - Chicago is one of the best area to purchase rental properties due to its low buy/rent ratio.
 - B. Annuity
 - Fixed, Indexed, Variable
 - Your money will grow tax free until withdraw.
 - C. Real Estate Private Equity
 - You get to invest in a riskier and higher return cycle of the investment.
 - You get to follow big institutional investors and participate in projects that you will not be able to do alone.
 - Most of the gain will be taxed at the long term capital gain rate which is about half of your ordinary income tax rate.

6. Set up an LLC
 - Enjoy 20% tax break under Trump reform
 - Protect your personal wealth from your business adventure
 - Write off MBA tuition

7. Estate Planning – Will or Living Trust?
 - If you want to avoid probate, you need a living trust.
 - If you have small children, you will need to name a guardian