Consider This Program

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On This Show:

Big Joe Clark, CFP®: Managing Partner and Lead Advisor of Financial Enhancement Group

Ken Dilger: Former Tight End at Indianapolis Colts, Senior Loan Officer at Milestone

Angi Kinser: Event Coordinator at Financial Enhancement Group

Show Notes:

Topics Include:

- Taking income at age 64
- Becoming a consultant
- Rental Income

Long Term Capital Gains. Being Taxed Differently:

All sources of income are created equally. True or false? False.

They are not equal in any one of three shapes or form.

Are they taxed equally? And the answer obviously is no. Hence the word long-term qualified or long-term capital gain. Qualified dividends, interest. The reason we break them down is because things are taxed differently.

Farm example provided in radio show.

What to do with the money?

- One of the things that happens actually quite a lot is that folks will come in and maybe they have some income
- And so their question is, I mean, where do we put it? Where would be the best place to invest if we do have some extra income?

Listen to Consider This Program for answers to the question!

Baby Boomer Trend:

Baby boomer owners are starting to become the largest demographic as far as renting versus the millennials, which is what it used to be

Loss of spouse, financial planning

I will remember probably forever 2002 a lady walked into our office. It was very, very early in the year. Her husband worked at Eli Lilly and had passed away. It was an accident. So the amount at work, so the amount of in amount of insurance was like five times what it would normally be. It's called accidental death. And she had over $5 million of Eli Lily stock and not much of anything else. Because of the, in the decision that she'd made is they had about a half a million dollars before he died, right? And all of a sudden she had all of this extra money. She didn't know what to do with it.

She'd heard that you don't do a lot when you've lost a spouse. And, and part of that, I agree with part of that. I don't, you certainly don't buy a bunch of stuff, right? That doesn't mean you don't pay attention to the tax planning and everything else on that last year of marriage. But she took the $5 million since she about $5 million more of Lilly. And her viewpoint was, you know, I trusted my husband, he loved me. He would never hurt me. He thought Lily was good enough, you know, so I bought more Lily. And the reality is she now had, you know, everything that he left, the good income being gone, but it was now all in Lily stock. And if you go back and look at the, what happened to the stock price, it wasn't a happy day for her. Very, you know, soon after.

Story

So here's what we have. We have a 55-year-old married couple. They plan on staying where they live when they retire. So they're going to be with Indiana tax code. “How much income can they take at 64?” is their first question. The second question is: “What if he becomes a consultant?” And then the third is: “Does rental income make sense for him?”

So all of the money is coming out of a 401k plan, which we know is going to be taxed. How? On the margin, at the top marginal rate, right? It's tax-deferred money, they've not paid any taxes on it, so it's all going to be taxed at that very, very, very top rate. So one of the things that would be nice is if we could start building some tax diversification for him. Secondly, if you think about it, he may have more of his money in equities or stocks than he probably should have. It's hard to say, but when he says most of my money's in stocks, those are things that concern me. I find people who come in sometimes into our office and say they're moderately invested or they don't want to be aggressive, and they have a larger equity percentage in their portfolio than I do.

How much money can you take at 64? I can't break down the math for you in the show right now. What I will tell you is it is a breakdown of how that tax treatment's going to be. And in this case, it's all before tax. So if he takes out $5,000 a month, it's fully taxable. It's 64. And so what they're going to want to know is *whether they need*, *how much money they need*, and *gross B* (meaning before taxes or how much money they need net after taxes). That is going to be a big deal for this 55-year-old company.

What if he becomes a consultant? Then he's going to have some self-employed income and we talked about that in conversation number two. That gets to be really ugly. When I looked at my students at Purdue, people would try to recruit. I taught financial planning at Purdue and the capstone course. So they’re seniors and brokerage firms would try to hire them. Insurance companies would try to hire them and they would tell them they were going to be 1099 employees. The kids had no idea. I said, here's what it costs you to have that title. They told you it meant that you are your own boss. If you make $50,000 a year, that 1099 employee is going to pay about an extra $7,800 or $3,800 a year in taxes before the employer would pay. That is the difference between being self-employed and not self-employed, or what we would call 1099 income. So if you're younger, ideally you’re a W-2 employee, that means you work for somebody. 1099 means you're self-employed and you get to pay both sides of that.

Does rental income make sense for them? There is nothing better than owning property, right? It's the American dream. Nothing better than owning it, right? There's just nothing worse than selling it. Because you have this thing called recapture of depreciation and all of the pains and struggles that go with it. But boy, does it look good and feel good on your tax return for a few years.

It's kind of like, Hey, this is pretty cool. But people don't get to see the end result of what happens after you've owned a building for 30 years and you've had all the depreciation. It's like, this is not as much fun as it once was. The other part about rental income is it's a job.

61st day, count on full taxation. And if you're under 59 and a half, a full 10% penalty.

Disclaimer: Joseph Clark is a Certified Financial Planner™ and the Managing Partner of Financial Enhancement Group, LLC an SEC Registered Investment Advisor. He is the host of "Consider This" found on WIBC Saturday mornings from 6-7a.m. as well as three other Indiana-based radio stations. Joe has served as an Adjunct Assistant Professor at Purdue University where he taught the capstone course for a degree in Financial Counseling and Planning.

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