00:02

Hey Brian, how are you?

00:04

How you doing?

00:05

I'm great.

00:06

Welcome to the the next episode of the Clary Cast where we explore financial topics that are relevant to our firm and our clients here and hopefully relevant to our listeners.

00:18

And so welcome back.

00:20

Again, excited to be with you and just to be true to our process.

00:24

Um, and just to get out the jitters.

00:27

Maybe we start with a positive focus.

00:29

I don't know.

00:30

I can't remember who went last time, but in this volley back and forth, I don't know if you maybe maybe you start this time Sounds good.

00:40

You know, I'll go where we're in graduation season.

00:44

I'm starting to see, you know, friends out on social media sharing the good news of graduation for their son or daughter, and I'm excited to experience that for my own daughter.

01:00

You will be graduating from the University of Delaware and nursing school next week and she's finishing up her class work this week, so I'm super excited about that and my positive focus is that she already has a job and that she will be starting the.

01:20

The licensing process for for nurses in June and she'll start in her nurse residency in August.

01:27

So congratulations.

01:28

Thank you.

01:28

That is so great.

01:30

Yeah, it's an exciting.

01:32

It is like graduation seat is in, you know, it's like an exciting time.

01:37

New beginnings, right?

01:39

Yeah, it's really cool.

01:40

You know, and, and big transitions, you know which I mean, I think it's kind of neat here at the firm.

01:47

Like, I mean, you have those transitions with clients or and their children or grandchildren maybe from high school or college.

01:54

And then and then on the other side, you know, you have these transitions into retirement and certainly.

02:01

Very different, but you know, big like these like big change of life type things and you know, I just, I think so cool graduating from college and kind of launching into the world.

02:14

So yeah, yeah, thanks for sharing that.

02:18

So my positive focus is this morning, my oldest daughter and I, we got up and we went for a morning run together before work in school.

02:29

So if I'm to be truthful, not a whole lot of talking, you know, this morning, No, you were just keeping your.

02:38

Yeah, well, you know, trying to keep up with her, right.

02:42

She took it easy on me for sure.

02:45

So which is nice that she didn't like Barry me first thing in the morning on on Monday morning.

02:52

So, so that that in itself could be a positive focus, but really the positive focus is is.

02:59

The the run, certainly, but you know, time together and and again, there wasn't, there wasn't a whole heck of a lot of talking, like a little bit of talking, but like something that we both enjoy that we were doing together.

03:15

And so, you know, somehow I think some of those.

03:18

Experience transcends words, so meaningful time, even though there wasn't a whole lot of meaningful spoken conversation.

03:27

So anyway, just grateful for that.

03:29

So that's my positive focus for today.

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And it doesn't make a great segue necessarily into what we're going to talk about.

03:40

Um, so, so maybe let me tee that up for, for our listeners here.

03:46

So we've been doing a lot of work or having a lot of conversation around our process here at the firm and helping clients identify really the why and their planning, underlying drivers and you know.

04:00

Talking that through and then connecting those really human things with the numbers.

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And so today, and we're not really going to talk numbers so much, but we're going to talk more how and what and so.

04:15

We here at the firm, we do holistic financial planning, right?

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And so we have these pillars.

04:22

One of those pillars is, is tax and the work that we do there, it's a neat topic because it touches so many other pillars, right?

04:32

It touches a state, it touches cash flow.

04:35

Touches investment, it touches risk management, depending on exactly what you're talking about.

04:39

And so, um, you know, kind of like melted Neapolitan ice cream, right?

04:44

It's a little bit, it's a little bit into all of them.

04:48

And so we're going to talk about that.

04:51

I don't know, Brian, maybe where do you think we should start?

04:55

I'm open to you know.

04:58

Starting wherever you think might be a good launching point.

05:02

Sure.

05:02

Well, I would say that when it comes to tax planning, we're we're trying to help people.

05:10

Save money over their lifetime from a tax perspective, not what they traditionally experience when they work with an accountant, where they're focused on how to pay the least amount of tax in that particular year, which is already over, right?

05:26

You know, we're looking to go forward and see how can we?

05:31

Help our client minimize their tax liability over their lifetime and what strategies can we employ to do that?

05:39

One of the ones that we recently worked on, you know, it was in the 2025 tax year, was a donor advised fund, setting up a donor advised fund.

05:51

For a former business owner who is in the process of an installment sale and has a fair amount of capital gains exposure coming from you know that installment sale and and how can we mitigate some of that while they were looking to take a little bit less risk in their investment portfolio?

06:11

Then we you know, took a combination of appreciated shares that they had in you know, a particular stock and cash and we put that into a donor advised fund to to give them a really nice tax deduction in the 2025 year to offset some of that income.

06:32

It only works when we have a client that is inclined to, you know, make charitable donations, right.

06:39

We, we shouldn't be contributing to a donor advised fund if there isn't a significant current and ongoing desire to, you know, donate to charity.

06:48

And in this case that obviously came into.

06:52

Buying we really what we did was batched five years worth of gifts all into one tax year and it made a big difference in terms of their current taxation and and allowed for us to create flexibility and they're giving strategy Brian it's so so great for a client that.

07:12

That you know is in the situation you're describing that also has a real desire to to gift and maybe like down the road may not have the cash flow to gift at the level that they've been gifting at while they've been employed or owning a business.

07:29

Also, one of the things that you said that I think is worth maybe highlighting or.

07:35

You know, reiterating is that that the work we do here is, is not tax advice like they're our clients are getting from their, their enrolled agents or CPA's.

07:47

You know, it's a collaborative planning process.

07:50

I mean, it is true planning and it's different than giving specific tax advice.

07:56

And it's, it's over, you know, potentially a lifetime, you know, or a retirement lifetime, decades that we're talking about these concepts.

08:03

And of course some of them like this donor advised fund, like that all got planned at one point.

08:09

And being that I was, you know, kind of part of the planning and that I knew what was happening.

08:17

With what you were doing with, with that client, you know, all blessed by their, their CPA too, which I thought is, is also really important to acknowledge.

08:26

Sure, we're doing this in coordination with and you know, we have our own tax software that we use.

08:33

Obviously accountants have their, their software that they're using.

08:36

And, you know, in this case, we collaborated with the accountant and we ran the numbers past them and said, hey, you know, do these numbers look like what you would anticipate?

08:46

And they felt, you know, pretty good about it.

08:49

And if there were some questions that came up along along the way, you know, one of the big questions and you mentioned.

08:57

You know, the pillars that we have from a tax planning perspective, one of those pillars being a state.

09:04

This particular client wanted to really understand what what would happen with these donor advised fund assets if they were to die before, you know, they had completed all their grants and and had spent for the benefit of charities.

09:18

Spent all of this money and one of the things that I think is kind of cool about a donor advised fund is is that you do have the opportunity to name a successor to make decisions on behalf of that donor advised fund into the future.

09:34

So if you're looking to create a you know a legacy.

09:38

That will give your empower your children or grandchildren or you know whoever is important to you to continue to make charitable donations on your behalf or in your memory.

09:51

You know the donor advised fund could potentially facilitate that.

09:56

Yeah.

09:56

So Brian clearly the the underlying.

09:59

Um, the underlying driver here is someone that is charitably inclined, you know, is, is already gifting or has now found themselves in a situation where they would like to gift.

10:11

But maybe just for our listeners, if you could add a high level.

10:17

Describe what things need to be kind of present for this to be.

10:26

A potential planning opportunity for you.

10:28

So if, if I'm, if I'm listening to this podcast and I'm thinking, OK, geez, like I, I give and I own a business or, or I work and we give out a cash flow or whatever that might look like.

10:42

And also what is the also like what maybe give us just an idea.

10:48

Because I think that would be helpful.

10:51

Yeah.

10:51

Well, I think there's a couple of elements that come into play there.

10:56

The first would be, is the giving substantial enough that batching 3 years or four years or five years worth of gifts will give us a current year tax deduction that's significantly higher?

11:09

Than what you would get through the standard deduction umm OK, so when you take all of the itemized deductions that you have will stacking this really large charitable donation in that one tax year make a meaningful impact and if it will then I think we're in a position where we could.

11:31

Considered the second thing that we need to make sure is are we?

11:36

Very comfortable.

11:37

You know, more importantly, is the client comfortable that their intent to donate to charity will not change over the course of the next, over the course of their lifetime?

11:54

Yeah.

11:54

And can they?

11:56

Make an irrevocable decision to make their donation this year as opposed to continuing in their current strategy of making, you know, 10 or 15 or $20,000 worth of gifts every year to the charities that are important to them.

12:17

If we're comfortable that they're willing to make an irrevocable decision to accelerate that gifting all into this tax year, you know, then we're in a good position as well.

12:29

And and then from there, you know, it comes down to some of the other elements.

12:35

So in this particular case.

12:37

They had some highly appreciated stock and you know we're not going to get into the details, the fine details of the the law as it pertains to tax, but we had the ability to take a portion of our overall gift relative to their adjusted gross income and use appreciated stock to fund a portion of that.

12:57

Shift and it just happened that it came at a time when they were looking to take less risk in their overall investment portfolio.

13:06

So by shifting this more aggressive stock into the donor advised fund, it made it easier for us to rebalance the the total portfolio and minimize.

13:17

You know the tax liability on the rebalance as well as lower their overall tax liability in that given year relative to you know the installment sale that they were all already.

13:29

So there were a number of different complications in this particular case that really led to a much lower tax liability.

13:37

For 2025 for this particular client, yeah, it's great.

13:42

Thanks Brian.

13:42

And it's so as I'm listening to you describe it, it it just it so important that to just I think to acknowledge that each household, every client, every scenario.

13:57

Every situation is just subtly different, and I think what I've experienced with clients is that they have.

14:05

They have friends, right or family that talks about different things that they're doing and and I think that it's really important to flush out in your own situation, like whether this is a fit or not and why?

14:21

Because just because somebody else gives you kind of like.

14:26

Readers Digest version of it and how great like something's working it may or may not be.

14:32

I mean, a client could be all about like the large deduction in attacks here and not all about really giving the rest of their life.

14:42

And that would not be a fit right?

14:44

Just like not.

14:46

Not a match, um.

14:49

But you were talking about something at the end that I think is really kind of maybe a nice transition.

14:56

I mean, you're talking about rebalancing the portfolio and risk.

14:59

And so I think one place that well, I don't know, maybe clients are here, certainly they're experienced, but maybe individuals that are not part of our.

15:09

Firm is that when you have both retirement accounts, they're tax deferred so we're not as worried about trading and rebalancing inside of them or we're more worried about of course the income levels as they come out.

15:23

But when you have accounts that are after tax that are not you know Iras or.

15:30

Or qualified in some way.

15:32

And you have you have like a whole bunch of different pieces of tasks that are part of that.

15:39

You know, you have the interest and dividends that are coming off of them.

15:44

You have the short term and the long term gains and losses associated with trading them.

15:50

And you know where tax comes in here, you know, on even just the general rebounds, I think is really important.

15:59

And of course.

16:02

When you're looking at updating a clients account and having an idea of OK, we have a gain or loss, let's just talk about, let's talk about gain right at the moment.

16:18

So you have accounts are up, there's embedded gain, we're shifting.

16:23

Investment positions inside the models and they're going to create taxable gain.

16:28

You know, there's, there's obviously a couple of pieces here.

16:32

The first one being well, is it short term, less than 12 months, taxed at ordinary income, long term tax at long term capital gains rate, which are preferable.

16:44

Right.

16:44

Are there any losses that the client has taken related to the investments here or are there bank losses on their tax return, right, that they've been carrying forward?

16:57

And then to add just maybe another layer of it, Brian, I know we were just talking about this is OK.

17:04

Well, yes, there's maybe there's gain for our client and where do they fall in that long term capital gains brackets like so are they in the zero?

17:13

Are they in the 15?

17:14

We're probably a lot of people will find themselves.

17:17

Or are they in the 20, you know, And so having an idea of what their current or last year, what tax kind of looked like, what they did with their accountant, what now it's being projected to be can be really, you know, a major benefit in a major and enhancement, in my opinion, for.

17:38

A client even during you, you know what would be would seem like just your benign model rebounds.

17:46

Ohh yeah, yeah, most definitely.

17:48

And as we go through our semi annual rebalance, it just happens that we look to do that after we have a.

17:58

Clarity around where they're going to be from a tax perspective.

18:02

So we, we look to do that first rebalance of the year when you know, clients have already completed their taxes and we can get a copy of their 2025 tax return and we can run through some scenario analysis and see.

18:19

You know what kind of capital gains budget might might exist?

18:23

Are they in a 0% capital gains bracket?

18:26

Yeah.

18:26

If they are, how much do we have before they are subject?

18:32

So and like you said, the loss carry forward, you know, we might not be aware that there is a, a loss carry forward from some other investment they have elsewhere that you know, where there are new client coming on board and there's a loss carry forward from a previous relationship we're not aware of.

18:51

You know, knowing those things helps us.

18:53

You know mitigate tax, you know tax liability as we trade the portfolio and I think that makes us a little bit different.

19:02

There are a fair number of advisors out there who would just rebalance the account and not worry about tax liability associated with the rebalance and you know clients end up.

19:13

And a 1099, you know, and they have 10, fifteen, $20,000 worth of gain that they weren't expecting or anticipating because there isn't that coordination with their advisor and, and we pride ourselves on that from the standpoint of having the conversation to get a true budget from the client.

19:33

But then ultimately also when it comes time for them to get ready to file their taxes, providing a tax letter to their, you know, their accountant so that they know what to anticipate as they start to prepare that return.

19:47

And, and for some clients, you know, making sure that they make estimated tax payments out if if we get a budget.

19:54

From a client um.

19:56

That they're willing to accept some capital gains tax, you know, it, you know, in many cases would make sense for them to make an estimated tax payment if we're, you know, going to incur 5 or 10 or $15,000 of, of gain in in the portfolio.

20:13

Yeah.

20:13

I mean, we had, you know, so great.

20:16

Right.

20:17

I mean and we, we had a client last year that I mean that was the situation a whole bunch of gain decided that it was going to be taken to kind of reset so that we would have the tool of harvesting losses, right.

20:31

Like that's the other challenge I think that sometimes is overlooked in that buy and hold strategy is that.

20:37

You have all this embedded gain and when the market pulls back, there's no tool except to just ride the gain down.

20:45

And so trying to plan around that.

20:47

But for this client, we knew there was going to be gain.

20:51

We talked through what it was to get to get the model updated and then had them coordinate.

20:58

With their, their CPA, whether they should make an estimated payment or not, right.

21:03

And then in addition to that plan for the tax payment that we knew was going to happen.

21:10

Beginning of this year, right?

21:12

Like, and to me, um, I don't know whether it's different than other firms or not.

21:17

What I can tell you is it's where my heart is on serving our clients.

21:22

Is that like, you know, I think Prefontaine, the famous collegiate runner, said it best.

21:27

Like anything less than your best is to sacrifice.

21:30

Guest And like you can't just do part of it, right?

21:34

Like yeah, it's either you're in for a penny, you're in for a pound.

21:38

So I just feel like here we're looking at these accounts, we're saying, OK, is there opportunity from a tax loss harvest?

21:46

So if markets are down, are we harvesting the losses for the clients benefit?

21:50

And then communicating that to them and to their accountant.

21:54

And then when there's gain and we think it's in their best interest to take it, we're communicating with them so that real planning is happening.

22:02

It's not happening to them.

22:04

It's happening with them and their other professionals to say, OK, this is what we think the opportunity is.

22:10

How do you?

22:11

Feel about that and what does your tax professional telling you?

22:14

And then if that gets a green light to then say, OK, well, let's not forget that you're also still going to file these taxes.

22:22

So how are we taking care of the gain that is now going to be reported?

22:27

So is that coming out of the proceeds?

22:30

Is that coming out of your own?

22:32

Cash flow, is there a war chest of cash that's sitting on the side somewhere else?

22:38

Um, if planning's not in a vacuum, you know, I think it's so easy to get into a pillar, right?

22:45

And just be like in that one lane when it's just so much more dynamic than that.

22:52

Even even just on a model rebounds for sure.

22:55

Yeah.

22:56

And our job is to help them have more impact in their lives.

23:01

Right.

23:01

You know, in the first example, we're talking about how people can have more impact in their life through their charitable intent.

23:10

And, you know, again, it's not.

23:12

Our job to project on the client what we believe it's our job to help them make greater impact in their lives for their family, for themselves and for the, for the causes that are important to them.

23:26

If, if that be the case, you know, from a tax perspective, you know, with these gains.

23:33

Like sometimes we have clients who want to gift money to their children.

23:38

Well, maybe it's better for them to gift shares of a stock or an ETF that have a gain, you know, because we're looking at how can we deliver the best impact for the client.

23:53

And if their child's in the 0% capital gains tax bracket, well, they're going to liquidate that stock in order to make that cash, you know?

24:04

Donation or gift to their child.

24:06

Now all of a sudden we've, you know, done it in a way where it's cost, you know, maybe 15 or 20% less in taxes by, you know, gifting the shares versus the actual cash.

24:21

And you are, you said something that I think it it can't be.

24:26

Overstated right is that and, and I know that we're on the same page with this is that, you know, I mean like our job is, is for clients is to help them solve for their number one goal, right, not to solve for what we think their goal should be or what their goal would be.

24:47

How it could be better, like it's a solve for their number one goal.

24:52

And I had lunch with a friend last week and we were talking through some business and maybe some planning.

25:00

And for them, they have a large, they're in the real estate business and they have a.

25:07

A really large real estate portfolio and their challenge is that every time they've ever sat down with an advisor is that the recommendation comes to what hard assets can be sold so that they can invest the money and charge a fee, right and.

25:27

And maybe that's not completely fair to to all those conversations, right?

25:31

And so, you know, but he was, as we were talking through the process, he goes, this is really different.

25:39

And it was really different because it's, it's based on a fiduciary plan that has nothing to do with, you know, the end outcome as it relates to us, right, I think.

25:54

Which which I'm proud of, right?

25:57

Is it the way that we do planning for our planning based on the clients goals and we do that at every level, whether it's a state and gifting or whether that's inside like a quarterly rebounds, right is that we're.

26:14

Service to our people.

26:16

So anyway, I'll get off my soapbox.

26:18

I like standing up there though the view is good when I'm up there.

26:24

Well, you know, you're about, you're about my height when you're on your sofa.

26:28

That's right.

26:28

That's right.

26:29

Nobody knows how much shorter I am than you on this, right?

26:32

Brian's a giant.

26:33

For anybody that hasn't met Brian, just so you know, he's like, he makes Tony Robbins look really short.

26:38

He's like, no, just kidding.

26:40

How about one last one?

26:41

I think this is.

26:44

This is really cool and like a really cool example too is that that I have that goes with this but.

26:52

Both and and specifically Roth conversions and how they play out overtime for a client.

26:58

And so obviously when we're taking a tax deferred asset being an IRA and converting it to, I'm going to say a tax free income stream, there's some rules there obviously, but but there's.

27:12

There's a tax barrier we gotta go through.

27:15

You know, there's like a briar Bush.

27:17

Ohh.

27:18

Yeah.

27:18

And there's a couple of ways.

27:20

And so one of the things we've been doing a lot of planning around is OK in the cash flow planning for a client looking out maybe decades into retirement.

27:33

And looking at long term growth assumptions and tax bracket assumptions and in the case when it's a husband and wife, what happens to those brackets when one passes right looking at Roth conversions.

27:47

And so Brian, maybe why don't you talk a little bit about?

27:53

Um, Ross conversions and and, and it seems to me maybe if we could kind of talk about.

28:02

How we start coming up with, you mentioned a budget for capital gains.

28:07

I think maybe talking about really mechanically if you're thinking about a Roth conversion, I think a lot of people think about these planning opportunities as if there's zero sum all the time, like either I'm doing it or I'm not doing it.

28:21

But I think things are way more nuanced than that.

28:24

So maybe you can kind of share your thoughts on that.

28:28

Sure.

28:28

Well, let me start by saying that the government requires that you start to take money out of these pretax retirement accounts at some point for many of our clients.

28:38

That's now 73 for some of our younger clients.

28:41

That will eventually be 75.

28:44

That required minimum distribution is not, you know, a distribution that optimizes for our client in terms of income.

28:54

It's optimizing for the government to start collecting tax revenue and I think that.

29:01

Sometimes people forget that that they see their account balance in their retirement accounts growing and growing and growing, and they miss opportunities to either take money out at lower tax brackets or convert some of it into a Roth at a lower tax bracket.

29:21

And then they get to that age, 73, and their account balance has grown to a point where that required minimum distribution, you know, puts them into the next highest tax bracket or subjects them to a surcharge on their Medicare Part B premium.

29:39

You know, we call that an Irma surcharge.

29:42

Uh, you know, and there are all of these consequences that come from letting, just sitting there and letting the money grow and, and thinking, oh, well, I won't take anything until I'm required to take it.

29:57

So, you know, our goal is to, to start having these conversations as early as we possibly can.

30:04

Now, for some clients, they're not yet ready to start making these decisions until they're in their late 60s.

30:11

So when they're ready is the best time for us to have that conversation.

30:16

But ideally, you know, when we have somebody who's retired maybe a little early, you know, in their early 60s.

30:25

The earlier we can start this process and the more that we can convert to Roth in a thoughtful way.

30:34

Potentially the, the better the outcome is for the client, both during their lifetime, for the surviving spouse and then ultimately you didn't mention it at the beginning, but ultimately also for their children, their grandchildren who inherit that money, you know, assuming there's anything left and, and that might not be the primary goal.

30:56

You know, the primary goal may be to reduce tax liability over the lifetime of the client and their spouse.

31:04

But you know, in in some cases, you know, it's also to further reduce tax liability, you know, over their beneficiaries lifetime, you know, with, with those monies.

31:16

Um, so for a lot of clients, it might be that we're just trying to fill up to the next bracket to the top of the 12% bracket or, you know, we're being very thoughtful with this specific dollar amount that falls into a budget that they can pay the taxes out of cash flow, you know, or out of, you know.

31:36

You know, money that is in short-term savings, so it might just be A5 or A10 or a $15,000 conversion each year for the next four or five or six years, or it might be something a little bit larger than that to fill up to that next bracket.

31:53

You know, maybe it's 25 or 30 or 40,000 a year.

31:57

But again, it's always done on a thoughtful basis to make sure that we're minimizing tax liability overtime, yet knowing that we don't have a complete picture, you know, we don't know when they're going to pass, you know, but we're making assumptions that if they were to live to 90 that.

32:17

You know, the overall tax liability over their lifetime would be lower in this scenario than than it would otherwise be.

32:26

Yeah, Brian, I, I think one of the things that you're describing is really just taking a little bit of a different vantage point like.

32:37

Different view into the planning and the projection.

32:40

And so I think what happens sometimes what I've witnessed with clients is that the way to deal with taxes on these tax deferred accounts is to just continue to defer them and avoid it until the last possible time right when then required minimum distribution start and.

32:57

We have to start taking them right And um.

33:03

I, my experience is, is that clients don't always realize that maybe there's some, some some planning that can be done where they can be an active participant in making that look better and then with coordination with their accountant starting to figure out, OK, well, what does it, where might that really kind of sweet.

33:22

Bot B both from a standpoint of tax and pain tolerance, right?

33:26

I think that's the other piece of this is like.

33:31

That when the taxes are getting paid from outside of cash, cash accounts or from inside the IRA, if that's the way it's gonna go down, is to say, OK, well, where is really our tax threshold?

33:45

Like where does it look like this makes sense and where does it stop making sense, right?

33:52

And then where does it make sense from a planning standpoint based on what our cash assets look like?

33:58

And then where does it make sense based on like what we can stomach, right?

34:02

And I think that's a real thing.

34:05

And I think where a lot of clients, they read about Roth conversions, they've heard people talk about Roth conversions and then they see the numbers.

34:13

And they go, oh, wait a second, that doesn't look good because there's that other, there's that other piece of it.

34:21

You know, the other part of it I think too that that you're talking about being closer like game time is I think for clients that are still contributing at work is asking the question if they have the multiple money types in their plan, their 401K plan.

34:41

Or now that simple Roth is available, right?

34:45

Does it make sense?

34:48

For them to be using pre tax dollars or Roth post tax dollars in their savings and and for high income earners it's probably going to be it's going to be a pretax.

35:00

But but I think that's something that should be looked at, not just assumed, right.

35:05

Like I said, yeah, people listening wouldn't have saw the face you just made.

35:09

And it was like, yeah, I don't know.

35:12

Because I think that that's like, yes, and.

35:15

Yeah, these other things need to be considered and holistically considered.

35:20

You know had clients in here last week and it was a multi generational conversation and we were talking about where the parents tax rate is and that they probably won't spend.

35:36

Like this, this, these qualified dollars, right?

35:38

They're happy to spend the required minimum distribution.

35:40

They're going to do some traveling, right?

35:43

So that's all good.

35:44

We're really happy about that.

35:45

But they're probably going to leave the line share to their children who are in a higher tax bracket and will be in a higher tax bracket and then we'll need to liquidate those accounts.

35:56

Over the course of ten years.

35:58

And so looking at like that strategy to say, well, wait a second.

36:03

Even if the tax like should we be taking a little more and filling up that bracket so that we don't leave it for Uncle Sam to then tax your son or daughter in a bracket that's 10 points higher.

36:17

Yeah.

36:18

You know, we also have some clients we're working with right now where I'm unfortunately one of the spouses in a nursing home and you know, they have all of these large miscellaneous itemized deductions for medical expenses that give us an opportunity.

36:37

To take more out of retirement accounts while minimizing the tax liability because of the larger itemized deduction.

36:46

Yeah, either for the benefit of the healthy spouse or, you know, as a tax mitigation strategy for, you know, the children who will eventually inherit it.

36:59

Yeah, but you're there.

37:00

There are a ton of different ways that we can potentially help minimize the total tax liability by being thoughtful about how we take money out of these accounts.

37:10

You have to go back to the face that I made, you know, with the the Roth, I think sometimes people make the assumption, should I make a pretax contribution or should I make a Roth contribution?

37:23

And, and they, the assumption is, is that if I'm in the same tax bracket in retirement as I am today, that it's a, it's a wash and it's a wash because when you make the assumption, you're assuming that you in either invest more on the pretax side and less on the Roth side.

37:44

Or that you invest more or less, you invest the same dollar amount, but some of the pre tax money is you have a a portion on the pre tax side that you're also investing in a taxable brokerage account so that the equivalent after taxes have it's kind of been levelized out.

38:04

I think the reality though is, is that if I told somebody you can make a Roth contribution into your 401K and you know you should do 6% of pay that over the course of the year, the fact that they're not getting a tax deduction on that 6% of pay contribution into their Roth doesn't get.

38:25

Factored away, right, Like, you know, most people don't say, well, I was going to make a 6% pretax contribution, so I'm only going to make a 5% Roth contribution.

38:35

And I, I, I think that what I like about the Roth and again, it doesn't have to be a 0 sum game, it doesn't have to be all Roth.

38:45

Were all pre taxed?

38:46

It could be a combination of the two.

38:49

But what I like about the Roth is, is that it allows you to in essence over fund your contribution into the account.

38:58

So like if you've got the ability to make a, you know, contribution, you know, into a retirement account.

39:06

The dollar maximum contribution, if you make that as 100% Roth, in essence, you got an opportunity to make that full contribution with no, no taxation into the future, right?

39:18

You know, so you've you've versus making a pre tax contribution, you're going to have to, you know, pay those taxes.

39:26

When you start drawing the money out, so you're in essence making a larger contribution when you make a Roth contribution.

39:32

Yeah, yeah, it's a really neat.

39:36

It's a really neat point that that maybe we, we, we might have lost some people in that.

39:44

Yeah, it's probably.

39:47

Is that that's the that's the problem when you have a podcast where you just kind of, you know, riff on an idea and you don't have the.

39:56

Um, I love it though, Brian, because I think it's really a cool point is that, you know, is that if I'm just going to, I'm going to oversimplify this, is that if you're maxing your 401K and you compare pretax, take the tax, like take the whole tax bracket component out of this.

40:16

Right.

40:16

We just know we're going to pay taxes and you're do 100% pre tax compared to 100% Roth.

40:23

You're getting more bang on your buck long term with the Roth because the you're not paying taxes.

40:30

There's no, there's no co-owner.

40:32

You know, Uncle Sam's not on that account in the future.

40:36

No, which is is an important point and I like the fact and I love the way you think is that.

40:44

Most people are not doing the math and thinking, well, what's the equivalent inside long run?

40:49

And so that's why people should hire you because you think like that, like you know, you think like that so that they so that they don't have to take a run at it like that way.

41:02

So I think that's awesome.

41:04

So Brian, maybe that's a good, um, you know, hopefully we have our listeners significantly confused, so they'll all want to call and talk to us.

41:12

No, I'm just teasing.

41:14

So, but I do think that's maybe a good stopping point for today.

41:20

Potentially we're at, you know, saturation for for consumption purposes and we can pick up kind of this conversation next time we get together.

41:31

So I appreciate you and you're in the conversation and I'll look forward to connecting with you sometime real soon.

41:40

Alright, take care.

41:41

Thanks, Brian.

41:46

Thank you for joining the Clarity Casts.

41:49

Contributions to a traditional IRA may be tax deductible in the contribution year, with current income tax due at withdrawal. Withdrawals prior to age 59 ½ may result in a 10% IRS penalty tax in addition to current income tax. A Roth IRA offers tax deferral on any earnings in the account.

Qualified withdrawals of earnings from the account are tax-free. Withdrawals of earnings prior to age 59 ½ or prior to the account being opened for 5 years, whichever is later, may result in a 10% IRS penalty tax. Limitations and restrictions may apply.

Cover slide bullets:

- **Lifetime tax planning**
- **DAF “batching” for bigger deductions**
- **Tax-smart investing + Roth conversions**