Money Matters: Investing and Taxes

Introduction

The purpose

Disclaimers

- Financial information is by nature dynamic and ever changing, as a result you should assume any information presented here as dated and in need up update before any decisions should be made.
- Your situation is unique information provided here is general in nature tax many details may not be mentioned that may have impact on your financial situation. Make sure you investigate fully any topic that may be used to make a decision. Additionally, tax laws are complex and many times subject to vary based on the individuals income. Make sure you understand the implications for your situation.
- Discussions assume all tax rules are being followed. For example if you withdraw funds from a tax deferred account before retirement age there are penalties, and guidelines provided below will likely not apply.

COVID-19 Tactical Investments

- Airline Industry
  - JETS, LUV
- Cruise Ship Industry
  - RCL, NCHL, CCL
- Sector Investment
  - XLE – Energy Sector

Bitcoin

- What is bitcoin and what's going on.

Accounts, Taxes and Investments

- Note: Conditions detailed below assume you follow rules that apply to the situation at hand, IE if you withdraw from a retirement account early, rules outlined below don't apply.
- Three Types of accounts considered here:
  - **Tax Deferred Accounts -** These are typically the 401k's, 401a's, IRAs, etc. Contributions to these funds reduce your taxable income the year you make the contribution, but add to your taxable income the year they are taken out, so that you pay taxes on all funds withdrawn from these accounts at the rate of your tax bracket for that year.
  - **Roth Accounts** – Contribution with funds that have no tax advantage when contributing. All withdraws are Tax free and do not contribute to your income, EVER.
  - **Investment Accounts** – Earnings are taxed based in holding period of investment and your tax bracket. Profits are taxed (sales price – purchase price). Losses on investment may offset profits of other stock sales.
    - **Short Term** – Held for less than one year are taxed at your tax bracket rate
    - **Long Term** – Investments held for longer for one year are taxed at capital gains rates. This will be typically a better rate.
- Investment Performance considerations:
  - **Tax Deferred Accounts** – Amount of gains or losses incurred in these accounts have NO bearing on how withdraws from these funds are taxed.
  - **Roths Accounts** – Amount of gains or losses incurred in these accounts have NO bearing on how withdraws from these fund

- **Investment Accounts** – Realized gains are taxed while losses my be used to offset gains from other investments.
- General Rules
  - Conservative investments should go in Tax Deferred Accounts while Aggressive Investments should go into your Roth or Investment Account.   Short term investments should go in your Roth if you expect to make a profit off of them. Why? Taxes.
  - Withdrawing money from accounts.
    - Tax Deferred Accounts - All withdraws from tax deferred accounts will increase your taxable income in the year you withdraw the funds, this will increase your taxes due and may increase your tax bracket.
    - Roth Accounts – Withdraws have NO impact on your taxable income and will not be taxed.
    - Investment Accounts – Taxes are occurred upon sale of an investment and are based on two factors, capital gains (SalesPrice – PurchasePrice) and length of time the investment was held.
      - Short Term investments (less than 1 year) will increase your taxable income and may increase your tax bracket
      - Long Term investments (more than 1 year) are taxed at a flat rate.
  - Sequence of withdraws
    - The sequence of withdraws from the various types of accounts are dictated by the following factors:
      - What Tax Bracket you are currently in, and what you think your future tax bracket may be.
      - Amount of money being withdrawn. This could bump you up to the next tax bracket.
      - Amount of money in respective investment accounts.
      - Holding period of investments – For investment accounts.
    - In retirement, generally, funds should be withdrawn in the following order (Note there are many exceptions):
      - Tax Deferred Accounts
      - Investment Accounts
      - Roth accounts
    - What funds you withdraw from and how much you withdraw from each fund will likely change year to year based on the factors outlined above. The primary driver is avoiding paying excess taxes now and in the future.