CONSERVATIVE
FINANCIAL SOLUTIONS

Common Financial Mistakes

A Five-Part Series on Common Financial Mistakes Made by Pre-Retirees & Retirees

PART THREE: TAXES

It's not how much you make, but how much you save.[1] This popular phrase couldn't be truer when it comes to taxes. One of my favorite quotes about taxes comes from Federal Judge Learned Hand who said:

"Repeatedly, courts have said that there is nothing sinister in so arranging one's affairs as to keeping taxes as low as possible. Everybody does so, rich or poor, and all do right, for nobody owes any public duty to pay more than the law demands: taxes are enforced exactions, not voluntary contributions. To demand more in the name of morals is mere cant." [2]

It is the philosophy of keeping as much of what you make as possible and arranging your affairs in such a way to pay the least amount of tax that leads us to our 3rd common financial mistake.

Common Mistake #3: Tax Preparing not Tax Planning

Every year, as a law-abiding citizen, you either prepare your own taxes or arrange for someone to prepare your taxes. The numbers are calculated, and, in the end, you know that you either owe additional taxes or you will receive a refund. For most, once this process is complete, no further steps are taken until it is time the next year to do it all over again. Unfortunately, the opportunity to discover what you could have done differently to pay less in taxes, is lost because there was not tax planning, only tax preparing.

"I'm astounded that other advisors are not asking to see a client's tax return. Taxes are a big part of a client's complete financial picture."

— *Roger Ford*

I find it amazing how many people are shocked when I ask to see their tax return the first time we meet. I often hear, "Roger, why do you need to see my tax return? My other advisor never asked to see my tax return." I'm astounded that other advisors are not asking to see a client's tax return. Taxes are a big part of a client's complete financial picture. As a financial advisor and a fiduciary, it is my responsibility to look at the complete picture. Often, we can see the opportunity to save money on taxes. I haven't had a client turn down this finding, because the client likes to keep more of their money.

Here's a simple illustration to highlight the importance of tax planning. Let's take the example of a married couple. They draw half of their retirement income from social security and the other half from their IRAs. The husband predeceases the wife, and to continue with her same lifestyle, she will need to make up the lost social security income due to his passing. To create more income, she begins to pull additional money from their IRA. In doing this, her tax liability increases. Not only that, but she will now file her taxes as a single filer, and her standard deduction will be cut in half. It is highly likely that she will end up owing more taxes on the same amount of money. This situation can be prevented with appropriate tax planning. This is just one small example, there are countless reasons why tax planning is an essential piece of retirement planning.

In closing, during this next tax year, I encourage you to do more than just have your taxes prepared each year. Take the time to sit down with a qualified professional and see what opportunities that might be available to you, allowing you to keep more of your hard-earned money.

[1] https://simplelivingdaily.com/its-not-how-much-you-make-but-how-much-you-save/
[2] https://www.azquotes.com/author/6203-Learned_Hand

Conservative Financial Solutions | Roger L. Ford
10403 Harrison Ave. | Harrison, OH 45030
513.367.1113 | ConservativeFinancialSolutions.com