ToTT: The Big Bucks!

http://bcthemag.com/tott-the-big-bucks/
20 Apr 2016

THE BIG BUCKS

BECOMING A JERSEY MILLIONAIRE MAY NOT BE A ROSY SCENARIO

WRITTEN BY: SCOTT MAHONEY

Here we are, another year older, another year wiser and more determined than ever that this time we'll join the millionaires' club; not millionaire in gross assets, but millionaire in the sense that if we had to cash in everything to pay a cool one million dollars in ransom for instance, we could do it.

Considering that we have notched our belts yet again with a year's worth of hard-earned experience, and thus are far better at managing our finances and other assets, everything says this is the year.

But wait!

If we do make the magic seven-figure mark, we will also be joining the club that meets annually to fight off yet another effort by the state legislature to tax us at increasingly higher levels, all due to our success. For reasons that are somewhat obscure at best, there seems to be no end to efforts to penalize the most successful members of society, to generate funds for programs that benefit others.

It only was last year that the state legislature passed the so-called "millionaire's tax," although Governor Chris Christie vetoed it in the summer. The tax went dormant as the state's attention shifted to the Governor's efforts to gain traction in the national race for the GOP presidential nomination. But is it still out there, lurking?

Regardless, it is wise to start looking for places to invest hard-earned money to keep as much as possible, and to keep it working for you. There are many places to start, including contributing to an employer-sponsored retirement plan, such as a traditional 401(k), which isn't included in your taxable income. If you have self-employment income from a side job, you can sock away even more in a Simplified Employee Pension.

Despite the ongoing dips in the stock market and ballooning fears from depressed oil prices, there are still important opportunities in the equity markets – opportunities that may well be perfect for funds tucked away in sheltered retirement accounts.

Another option for potential tax savings is the deferral of year-end bonuses, or perhaps selling lower performing assets to take advantage of potential tax savings from a capital loss. Swapping the poor performers for alternatives may be the right move for some, especially if you can take advantage of the current low prices of many high dividend securities.

The New Jersey proposal to raise the current tax on high-end wage earners from 8.97 percent to something in the neighborhood of 10.75 percent was previously defeated in a similar but unsuccessful effort. Interestingly, the millionaire's tax, in a previous incarnation that expired in 2009, added a surcharge on folks making more than $400,000.

Supporters say the extra funds are needed because the state faces a multi-billion dollar shortfall in legally-mandated state pension fund payments. Since there are about 17,000 New Jersey residents who currently earn above $1 million, and about a half-million state and local government workers, a quick calculation shows that even if there was a new tax rate for millionaires, it wouldn't eliminate the shortfall in pension payments for the hundreds of thousands of New Jersey residents who are on government payrolls.

But it would make a dent, according to proponents, and that, they say, is sufficient reason to re-institute the higher rate. Which is why I believe it is very likely we could see the issue raised again at the next session of the legislature.

Regardless of your political position on taxing high wage earners at a higher rate, it is reasonable to assume that many of the high-income earners – like just about everyone else, frankly – may want to avoid as much of that taxation as possible. Clearly, some of the strategies applicable to high wage earners may also be a good choice for those with income not quite in the stratosphere.

A visit to the tax accountant may be in order. As noted, there are many ways to reduce or defer taxes on income, some better than others, and some involve creative or perhaps complex investment strategies. In the long run, their primary purpose is to put more of your money into your pocket without putting it at risk of taxation.

It's nice to think that after years of economic downturn and a sluggish recovery, there might be some additional spending money in our futures. But the key phrase is "spending money": money that makes it into our pockets after we earn it. Workers in all income categories would like to see more take-home money. The key to getting the most out of your efforts is to divert income that exceeds the high tax thresholds into appropriate places where it can work best for the person who earned it.

Scott F. Mahoney is a Financial Advisor with the Global Wealth Management Division of Morgan Stanley in Morristown, N.J. He can be reached at 866-932-3032. Follow Scott on Twitter: @mahoneyteamms