

# Senior Money Tree

## More Cash Flow.....

It is very simple. You increase your income or lower your expense. Let's look at these alternatives.

Revenue is produced by active or passive income. A person at work or their money at work is the sources for revenue. One other category might be sale of assets or property and technically that falls under money at work.

The examination of the problem is difficult because each person's circumstances are unique and the best alternatives will also vary because of their uniqueness.

Let's take a simple safe illustration of a couple who have been living on a fixed income consisting of Social Security, the husband's pension and interest earnings from cash savings equal to \$650,000. The SS and pension are fixed and even though adjusted for inflation will not see increases in the next couple of years, maybe longer. The \$650,000 interest was enough to get them by based upon 8% yields but today and for the past couple years it has fallen far below the rates needed and the next few years are not looking much better for rising interest rate returns.

O. K. the choices are to reduce expense or increase revenue-right?

How can they reduce their expense? Looking at budget line items they are also fixed and at a minimum. One problem is increasing medicine costs and needed additional medications. What if they could rearrange some things and lower their income taxes? That is a possible solution. What if at the same time they could increase the revenue without risk of their capital? Placing the current savings at risk in a high yield investment could increase revenue but it could also loose capital-an unacceptable position for most.

Sell residence in the form of outright sale might get some net cash after they pay all expense of selling moving and buying another. Reverse mortgage is another form of a sale but can stay in home.

Are there any other revenue increasing alternatives? Yes here are Samples:

### Example # 1

The \$650,000 in a CD at 2% is producing taxable revenue of \$13,000 a year and is most likely to be paid at the end of the year not monthly. \$9,750 net spendable revenue.

By repositioning some cash they could next month start enjoying an annual tax free income of \$18,144 plus additional taxable income of \$8,856 or total income of \$27,000. A gross monthly income for life of \$2,250. They have retained their home and have an emergency cash reserve of \$150,000 that could be collecting additional interest income. They never have to worry about running out of income. Additionally you would be eligible to take an income tax deduction in the year you completed the arrangement of more than \$165,000 should you have the income to qualify under the 50% limitation rule. What might that do for you? If you had other items to sell like your business, rental income houses or stock that appreciated this might be sweet.

If this was for one person's life income needs instead of 2 in the example the numbers would increase to \$31,500 annual income and an immediate income tax deduction of \$223,634.

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## Example #2

Taking the same set of facts from Example #1, let's add a common concern. What will happen if one gets ill and needs extensive extended care? The extra \$ 1,166 a month won't cover the \$40,000 plus bill per year that it costs for extended care. That is true but if you take \$4-500 a month and purchased a quality Long Term Care insurance coverage the problem would be solved and you would still have \$6-700 extra revenue you don't have now with the same extended care issue unresolved!

## Example #3

You have sizable holdings of stock that had produced good revenue in the form of dividends but are down on the dividends but still have strong high value. You need the income and at this point in life the value means nothing. The 2009 economy is creating more and more of these situations. Part of the problem is that to convert the stocks to cash the sale will trigger significant tax and the net amount with current low interest rates won't give you enough additional revenue that you need. What if you had market value at \$650,000 as the above example? Could you get basically a similar deal set up? Yes you can if you know how. Only a small portion of your capital gain will be reportable, and the tax will be spread out over your actuarially projected lifetime but the income numbers work the same. You would enjoy a much larger cash flow now and get an additional income tax deduction that in most cases would eliminate your entire tax for this year.

## Why hold onto property that is not producing positive cash flow to you?

- For kids inheritance?
- Don't want the tax bite?
- I didn't know these kinds of things could be done. My accountant and attorney never discussed these things with me.
- Don't know how to put it together?

Whatever your reasons are that have held you back you now know you have options and need not feel stuck or trapped by your success.

*If you had other properties this may make a good time to sell to lessen any tax burden on their sale. Take advantage of these IRS approved Tax strategies to increase your cash flow and reduce or eliminate the tax due on sales of property.*

**Call us or [email](#) us so we can call you to discuss how we can help you!**