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Is Your Tax Bite Growing?

While a discussion of taxes may not be the topic of choice for your nightly dinner conversation, it is an issue that we all are concerned about — and with good reason. In 2007, almost thirty percent of our time was spent working for the government.

Tax Freedom Day

According to an annual report issued by the Tax Foundation, a nonprofit, nonpartisan research organization, Americans worked the first 116 days of the year, from January 1st to April 26th, just to pay taxes in 2007. In theory, this means that on April 27th your job began to produce spendable income and your taxable investments became profitable. The Tax Foundation took its analysis one step further and broke down the tax implications for each state. Connecticut was the unlucky winner, bearing the nation's largest tax burden in 2007 with a Tax Freedom Day of May 12th. On the opposite end of this spectrum lies Alabama, with a Tax Freedom Day of April 11th.

What Are Your Options?

How can you reduce the time it takes to reach Tax Freedom Day next year? Ask yourself three simple questions related to your financial situation for the previous year:

Did I receive 1099s from my bank accounts?
Did I receive 1099s from other investments?
Did I spend or reinvest the interest?

If you earned taxable interest on investments that you expect to hold for the long term, it's likely you had to pay current taxes on it. With taxable investments, the reality is that you don't always liquidate your holdings to pay taxes. In all likelihood, you pay the tax out of current income or out of withholding from other income sources. This technique reduces your spendable income today, and may reduce it in the future. Fortunately, there are sensible strategies that may help you maximize long-term returns while potentially reducing your tax bill.

With solutions like annuities, your earnings have the ability to accumulate on a tax-deferred basis. Simply put, you don't have to pay current taxes on money that is earmarked for the long term. Instead, all earnings are reinvested and continue to accumulate on a tax-deferred basis until withdrawn. Of course, withdrawals of earnings from annuities are taxable and, if you are under age 59 1/2, may be subject to a 10% tax penalty.

Please consult with your own professional advisors for tax advice. If you would like more information on ways to achieve Tax Freedom Day earlier through the use of tax-deferred financial solutions in the future, please contact **Jason M. Woodward, J.D.** today at financialattorney@gmail.com.