

floridatoday.com

When can you completely avoid taxes?

by Steven Podnos, For Florida Today • Feb. 23, 2015 • 1 min read • [original](#)

Question: Is there any way to never pay taxes on some of my income?

Podnos: It is a basic tenet of taxation that states you will either pay going in or going out. For example, when funding for Roth IRAs, Roth 401k plans, and your general savings accounts, you pay income tax in the current year.

Conversely, in tax-deferred accounts (like traditional IRAs and 401k plans) you don't pay income tax on the contributions, but will pay income tax on all the distributions and withdrawals as they come out.

There are, however, two ways to never pay tax that can lead to substantial benefits. The first is to fund Health Savings Accounts. These accounts (HSAs) are open to individuals and families with qualified health insurance plans. Generally this means a relatively high deductible amount and some other minor specific terms. If you have such a qualified health care insurance plan, you can generally fund between \$3,000 and \$7,000 a year into the HSA. This money can be like a savings account and draw interest or even be invested in mutual funds. You deduct the contributions that you make to your HSA up front. Regardless of what it grows to, the money that comes out remains untaxed as long as it is used for medical expenses. So you end up with the potential of tens of thousands of dollars and the growth on them that is never taxed at all.

The second method of totally avoiding taxation is a bit tougher.

It requires that you die.

It is the concept of the "stepped up basis." To explain, imagine you are relatively old and own a stock (or house, or anything) that cost you \$1,000 and is now worth \$100,000. It has a built-in, long-term gain of \$99,000 that is taxable if you sell it.

If you give the stock to anyone else as a gift, they assume your basis of \$1,000 and will pay capital gains tax on the sale also. However, if you leave the stock to an heir, they will inherit it at the \$100,000 fair market value and could sell it the next

day untaxed.

This also assumes that you do not have an otherwise taxable estate (currently you may leave anyone up to \$5.4 million or more without having a taxable estate). It is for the above reason that the estate planning often attempts to maximize the step up of basis for one's heirs.

Other than these two situations, I can think of no method under which you never pay taxes. If someone is telling you otherwise, check out their story very carefully.

Steven Podnos MD CFP is a fee-only planner in Brevard County. He can be reached at www.wealthcarellc.com, or Steven@wealthcarellc.com.

Read or Share this story: <http://on.flatoday.com/1EKrhsX>

More Stories



Original URL:

<http://www.floridatoday.com/story/money/personal-finance/finance-QA/2015/02/23/can-completely-avoid-taxes/23795969/>