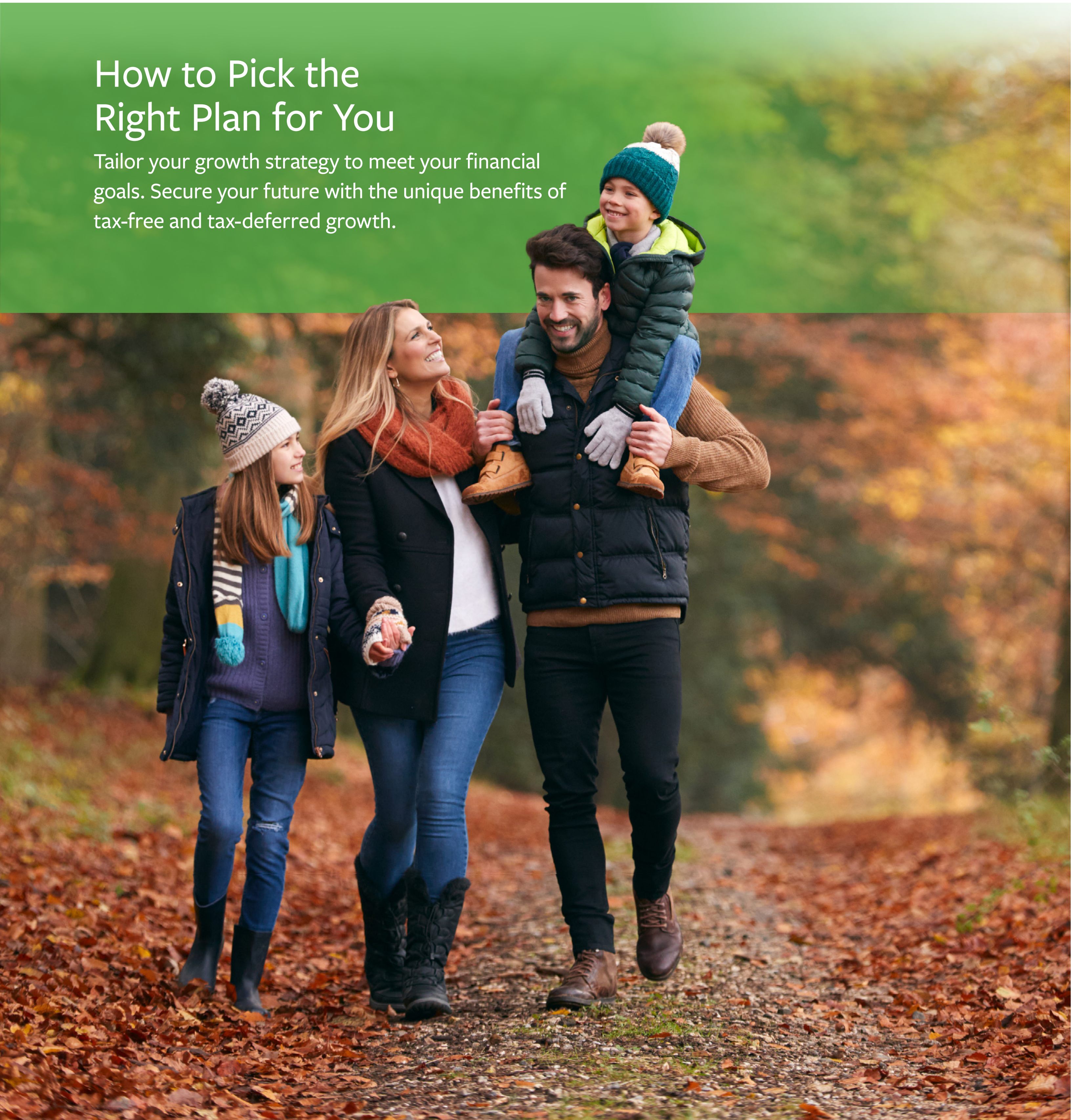
Tax-Free or Tax-Deferred?

The Entrust Group
Direct Your Future™

How to Pick the Right Plan for You

Tailor your growth strategy to meet your financial goals. Secure your future with the unique benefits of tax-free and tax-deferred growth.



Tax-Deferred Plans

Tax-deferred plans are made of pre-tax income. There are several types of tax-deferred accounts, including **traditional**, **SEP**, and **SIMPLE** IRAs. The funds in these accounts grow tax-deferred, meaning no taxes are due until a distribution is made.

Tax-Deferred Advantages

Choosing a tax-deferred account can benefit you in many ways.

You don't need to pay taxes until you take a distribution.

Your contributions may qualify for a tax deduction.

There are no income limits.

SEP IRAs provide employers with a simple way to contribute to their own and their employees' retirement.

Is Tax-Deferred Growth Right For You?

Tax-deferral is a particularly good choice for investors who earn a sizable income that exceeds the Roth IRA income limits (although a Roth conversion may be a solution to this limitation), or those who can benefit from the upfront tax break. If you are self-employed or the employer of a small business, a SEP IRA might be exactly what you're looking for. The SIMPLE plan serves a similar purpose to the SEP, but is limited to businesses with 100 or fewer employees.

Tax-Free Plans

A tax-free plan, more commonly referred to as a Roth account, is made of post-tax contributions. The funds in the account grow tax-free. However, contributions to the account are not tax-deductible.

Advantages of Tax-Free Plans

Roth IRAs have numerous, distinct benefits.

There are no required minimum distributions.

Your distributions will be tax-free once certain requirements have been met.

Contributions are made with post-tax income, so there's no penalty if you withdraw your original contributions.

Multiple penalty exemptions allow you to withdraw earnings as well as contributions.

Is Tax-Free Growth Right For You?

If it's your intention to leave behind tax-free wealth to your beneficiaries, a Roth IRA has you covered. A tax-free plan can also be a good choice for people who expect their retirement tax bracket to be greater than or equal to their current one. In this case, paying your taxes upfront will allow you to take advantage of lower tax rates and save you money in the long run.

A tax-free strategy can also help you avoid cuts to other retirement benefits (i.e., Social Security) by lowering your taxable income during your retirement years. Lastly, Roth IRAs are beneficial to those whose income falls within the **Roth limits**. You won't be able to establish a Roth IRA right away if you earn income over a certain threshold, but you might be able to open a traditional IRA and initiate a Roth conversion later.

How to Choose

Some of the perceived advantages and disadvantages of the accounts lie in how much income you're earning now, versus how much you think you'll receive when you retire. Consider whether your income tax bracket could rise over time. Young investors who are just starting out their careers might expect larger increases in their compensation over time, as opposed to older investors nearing retirement age.

Of course, many intrepid investors choose a combination of the two, directing a portion of their funds to tax-deferred accounts and a portion to tax-free accounts.

However you plan your financial future, consider the benefits of tax-advantaged diversification that come with a self-directed IRA. Learn more by checking out our **SDIRA Basics Guide**.