The Surprising Reason You Should Do Your Taxes In July

Scott A. T.: Broadcasting from One Dallas Tower, it is Scott Alan Turner, the financial rockstar, high priest of the Church of Financial Truth, here to help you get out of debt faster, save more money and retire rich. Thank you for speaking with me. Producer Catie sometimes makes her own chicken stock. In your face, Rachael Ray. On the show today, I'll be answering your questions about money, business, and life. If you have a question you'd to answer in the show, visit GoAskScott.com.

If you don't have a lot of income right now, some of the stuff we talk about may not apply to you. Yet. Yet, that's the kicker. If you're deep in debt, you don't need to concern yourself with, "Should I do a traditional Roth IRA? Should I do a traditional IRA a Roth IRA?" You don't need to concern yourself with that yet, but it's important to have some of these things in your back pocket so that when the time does come, and it will come, you just have a basic awareness of it.

It's an important part of planning. My kids, 2 1/2 years old right now, they don't know the first thing about money. They don't know the first thing about most things, but it doesn't stop me from planning, how am I going to teach them about money? What am I going to teach them about money? When am I going to start teaching it to them? How do other people teach their kids this stuff? What works? What doesn't?

How am I going to help raise responsible members of society, not a bunch of spoiled wankers? This is stuff I started thinking about when they couldn't even crawl or talk. I'm planning because it's coming. It's coming. I know it's coming, and I encourage you to plan, because you know what? It's coming for you, too. It's either coming for you, it's coming for your parents, it's coming for your relatives, it's coming for your kids, your grandkids.

It's coming, especially if you listen to this show. Most of us, we start from broke and we go up from there. Plan on having a million dollars. That should be your goal. I hope it's your goal, anyway. Not for the sake of having money, just because of what money allows you to do. Plan on having half a million, or whatever dollar amount you plan on. These things that we've been discussing, I've been talking about, they apply to tax planning whether you make $50,000 a year gross household income, or $500,000 a year gross annual income.

The professional athletes making $5, $10 million, they're not listening to this. They're in their own little world. You got a couple decisions to make. With income, do you pay the taxes on your income now when you get it now, or do you defer it to later? If you can take a personal or business deduction, should you do that now, current tax year, or should you do it later, next year, down the future sometime, where you are postponing the tax liabilities on your income?

Or deferring income, paying taxes later. Again, set a note. 401(k), that's the most common type of example. Your employer deferred retirement plan. It's a tax deferred retirement account for 3D, IRA, 457, through a savings plan. All those things. They reduce your income taxes now, and later you're going to be taxed on the gains at your ordinary income rate when you pull that money out and spend it. Hopefully you can defer it until you pay less taxes in the future, but that's one of those things you gotta start planning for as part of this discussion on taxes.

With real estate, so you've got rental properties. One way investors, they can defer the gains on their investments through a 1031 exchange. I'm going to talk about that. You can defer capital gains taxes on your investments by choosing to sell them the following year instead of the current year, if you hold them a little bit longer. You defer the sale on a property if you have a gain from the sale of your main home.

Maybe you can exclude up to $250,000 of the gain on your income, $500,000 on the joint return. If you got a property that has appreciated a lot, if you live in San Francisco or whatever. What about investment income? Planning the timing of your investment decisions. Preparing long-term capital gain tax rates again to the lower, ordinary income tax rates, how long you're holding these assets. If you bought a stock in January, it's gone up in value.

Say I want to cash out, make some money. You sell it in November, ordinary income taxes on that rate, whatever your tax bracket is in your highest dollars. If you wait the full year to the following January, you've held it for 12 months, capital gains tax rates, which could be lower depending on your tax brackets. Run a little risk, because if the value of the stock goes down while you're waiting those 30 days or whatever. Another consideration you got to make.

What about deductions, something that's going to apply to the vast majority of people at some point during their lives? When do you deduct an expense? Should you take it in the current tax year? Should you take it in the next tax year? If you're in a higher federal income tax bracket for the current year, or you think you're going to be in a higher bracket this year versus next year, or maybe you know you're going to be in a higher tax bracket next year versus this year based on your income, you've got side businesses, side hustles.

You're expecting some other type of compensation, a bonus or something, consider when you're going to take those deductions. Charitable contributions. Another thing. Talk to any tax planner, talk about charitable contributions. Property taxes. If you're paying property taxes out of pocket, you got a house paid off, you're in retirement, you write a tax bill every year. When should you pay those? Equipment purchases. You own a business. Home office deduction, want to buy a new couch with a home office.

You get a bill for this. Should you pay for it on January 1st, or pay the bill on December 31st? It depends. It depends. That's why you gotta plan ahead. I can tell you years where we've doubled up on the property insurance, or property taxes, rather. Pay last year's property taxes and this year's property taxes in the exact same year decreases your income. Tax deferral and tax timing strategies, they're all about planning. All about planning. Long-term planning. Why else would you do it?

If you pay the same tax rate now versus when you withdraw the money, you haven't accomplished anything. Tax is the same. You can use a traditional IRA to a Roth IRA calculator, and you can figure out those numbers for yourself and see that it's the same. If you're in the same tax bracket, tax is the same, but if you can get yourself into a lower tax bracket, say in retirement, you are going to pay less taxes if you defer the taxes until retirement.

The catch is nobody knows what the tax rates are going to be decades from now, if that's your long-term outlook from when you're going to retire. You could pay more, or not. It's all about planning, and in that particular case case, guesswork, too. Mass majority of people, they do not do year-end tax planning. Year-end tax planning, that's usually in October, November, sometimes it creeps into December, assuming your CPA tax preparer has not gone on vacation the last two weeks of December.

The basics are, we're at the end of the year. How can we time some of our income strategies, do some deductions to get the most favorable tax results for our particular situation? Maybe it's postponing some income from this year to the next year, accelerating deductions. Take some deductions this year instead of next year. You can look through that book. We've been talking about how to pay zero taxes, all kinds of different things that you can do to get those deductions.

They have to decide where are we going to put them? Current tax year, next tax year? Let me encourage you to do the following: do your taxes in July. Do your taxes in what? What? Do my taxes in July? They're due April 15th. I usually do them on April 14th starting at noon, and then I pull my hair out and run to the post office at 11:59 pm that night so I can get it in on time.

No, what I'm talking about is doing a dry run of the current year's taxes in July, in July. Why would you do that? You can take out last year's tax forms, then a blank one, and you do it in July because you got the first six months of information for your particular situation. It's easy to double everything. I made this much income, I double it. That's going to be the income at the end of the year. All right, I paid this much in mortgage, interest.

I can double that, times two, so that's what I'm going to pay this year. You do just a dry run of what your tax situation will be for the year. That way, you can make some informed decisions. You can say, "All right, it looks like I'm going to get a refund. I don't want a refund. I'm going to go adjust my withholding." You wouldn't be able to figure that out if you hadn't done the dry run in July. Or you say, "All right, we are independent contractors, or running our own small business."

"We have not saved enough to pay off these taxes. We got to dial it down and put some money away because we're going to have a huge tax bill come next year, because the business, boom, is taking off, and we've not set aside enough." The only way to know that is to do a dry run mid-year. It gives you a rough idea of what the end of year is going to look like, and you make some moves over the six months following, August to December. Moves that talk about, it has to be shows, so that you can avoid taxes.

Doing taxes on April 14th, it's too late. It's too late to save money from the following year. That's what most people do. April 14th, start working on our taxes. We miss deductions, pay more in taxes than you have to, and I would hate for you to be that person. I would hate for you to be that person when you could have spent a couple hours on a July afternoon when it's 100 degrees outside. You want to sit inside with the air conditioning anyways.

Football season hasn't even started yet. There's nothing on TV to watch, except maybe Dancing with the Stars. Maybe that's on in summer. I don't know. Certainly you can do it watching a baseball game. What is that, three hours long, and there's 30 seconds of actually action there going on. Plenty of time. Plenty of time to do a dry run on tax return, a baseball game, sitting at home. Make yourself a hot dog during the breaks, as well. Is it worth spending a few hours to save potentially a few hundred bucks, a few thousand bucks? Yeah. Then when it comes the real time to do your taxes for the following year you're already half done, or you at least got a huge jump start on it. You come out ahead. That's why you should do your taxes in July.

Reuben from Tallahassee, Florida says,

Reuben: "I'd like to get my financial advice from what a 25 year old Scott would do in my current financial situation."

Scott A. T.: "Here are some of the details. If you are 25 and single, you had a steady job that pays you $1,100 take home bi-monthly, no health insurance or retirement package, though. You put $600 to $700 in savings each month after all the expenses. You own your car. You have a mortgage of $650 a month, plus $100 extra goes to principal.

Bought a house at $120,000, now it's worth $200,000. You have $8,000 in IRA, but don't contribute any more to it right now."

"$29,000 in an online bank account. Credit score is 750+ and no debt other than the mortgage. That's my current financial situation. I'd like to know what financial goals, investments, and changes a younger Scott would make in this situation. Just trying to pick your brain. I have a couple of my goals are to retire early and to own a business. I want to be responsible with money. I have, which is why I'm just letting it sit in a bank account. Not really sure how to go about making the most use out of it."

"Two things, what would a young Scott do, and what would you recommend for me? It might be one and the same." Yeah, it's like there's some rip in the space-time continuum, and you are me in an alternate reality, but you got me beat by a year or two from when I was your age, and my mortgage was a little bit bigger. Weird, weird. You're in a great place. No debt, pile of cash, and so many choices and opportunities that you can take advantage of because you're not bound by the limitation of paying the bills.

Yeah, you got a mortgage, but it's small relative to your assets. Huge, huge advantage for you. Let's walk through a few things. First, you don't have health coverage, which is not a good place to be in, I would say. Check out catastrophic health care coverage and see what the price is going to be on that. That's just, major meltdowns happen. You get into a serious car accident, you come down with something. It's just the major stuff, because medical, that can wipe you out.

At least check on it, see what they're going to charge you for it if something really bad happens. Private insurance, the whole deal, that's going to wipe you out, too. At 25 and no dependents, it's still probably crazy expensive, but at least get a quote on the catastrophic health care coverage. You've got retire early and owning a business. My belief, those are congruent goals. Those are in line. Me, I like building businesses, but I'm also getting into real estate, as well.

They're somewhat mutually exclusive, but they're excellent ways to build wealth, and build a path to financial independence, and retiring early. Businesses, they're I'd say less risk in my opinion, because you can start one with no money or very little money. No bank loans involved. Early retirees, however, generally they kick off, have some sources of passive income that's getting kicked off from owning rental properties. Lot of early retirees do this.

It's also easier to get into real estate than build a profitable business. If your ultimate goal, top of the chart ultimate goal is being financially independent, retiring early with the least amount of work, the greater chance of success is going to be real estate. However, if you go down that route, you're going to carry more debt. That's the downsides, because you're going to have to take out mortgages, loans, borrow money, whatever to build up this real estate portfolio over time in a short period.

Is that a guaranteed path? No, there's certainly risks associated with that. Is building a business better? There's risks associated with that because most businesses fail at a greater proportion probably of people that get into real estate, if you do real estate right. I'm not talking about the no money down crowd, let's leverage yourself and have $5 million of negative net worth. That's different.

Doesn't sound like you're going down that route. It's very hard for me to say what I would have done differently, because what I did worked. I can't say I'd go back and do it different because I'd be trading something that worked for me, building businesses, multiple businesses over time, and investing in the stock market, as well, for something I haven't tried, that being real estate.

Starting from ground zero, or saying I was advising my children as they're coming up in life. What am I going to advise them in? Right now, I know business. That's my area of expertise, so I'm going to turn them into little entrepreneurs, hopefully. As we get going down the real estate path and I build up a portfolio of rental homes, and if I think that's the easier and better way to go two or three years from now, my position might change where I said, "All right, my kids, I'm going to bring them up make focused on the real estate side of things."

Or I might teach them both. It's hard to say right now, but if your preference is business ownership, yeah, go for it. If the higher priority is financial independence, retiring early, I think real estate has the track record to achieve that goal better and faster than trying to build a business, especially because you got the passive income side of it, where the rentals are just taking off money each month.

Whereas a business, you've got to run the business, or you've got to hire somebody to run the business for you after you spent all the time building it up, marketing it successful, and having enough money to pay somebody to come in, run the business, and then still have it kick off enough money for you to collect on the side and have a source of passive income that way.

If you don't want to be a landlord, if you don't want to hire a property manager, if you don't want to carry all that debt from getting into real estate and having multiple mortgages, clearly a way to go. Go start your own business, but if the higher priority is retiring early, getting some of those passive income, the greater chance of having passive income being kicked off from something, and you don't mind carrying the debt and the mortgages and all this extra stuff that goes along with owning rental properties, then real estate is the way to go.

You got to weigh those two in order to make your decision, but you got a buffer. You got the buffer, you got the cash in the account. You got some good money coming in. You're in a good place where you can go either way, and I think it's going to work out for you. You really just got to decide which one do I want to focus on and work towards. Thanks, Reuben, for the question.

Nate says,

Nate: "I'm 39, fairly new to the investor's world. Still have a lot to learn. My question is about my 401(k). my plan through my work is not a very good one. There aren't many options. There's only one index fund, and no real estate options. My employer has recently taken away their 401(k) match. Is it better to start an IRA now and roll over my current 401(k) into that? Gotten to a late start, so there's only about $10,000 in it. Would an IRA allow that money to grow faster than a 401(k)?"

Scott A. T.: You got ten grand, and you're 39. You're not late, Nate. You're in the game. You're in the game. You got a long time to save, a long time for money to grow. Half of all 40 year olds, people in their mid-40s have zero dollars, zero dollars. You're infinitely, infinity. Anyway, way ahead of them. If you've got a 401(k) that's got no match and terrible options, yeah, go ahead and do the IRA, and get the tax deductions for it. That's one thing you look at doing.

You can also do a Roth IRA, and then the money will grow tax free. You won't get a tax deduction now, but that money grows tax free, compounds tax free. When you withdraw it in retirement, you get to spend it tax free. That's a pretty sweet deal. You can also split the difference between the two. Some in a traditional IRA, some in a Roth. Which one you pick, it depends on your tax outlook for retirement, when you hit retirement age, which everyone is guessing at.

Nobody knows. It's 20, 25 years down the way. You have to do what everybody else is and just speculate, and ask yourself, "Am I going to have a lot of money that I'm going to be taxed on during retirement which is going to bump me up into a higher tax bracket? Is the imperial federal government, who continues their out of control spending, are they going to come and want to collect more taxes on my deferred accounts that I haven't paid taxes on yet, like my 401(k)?"

You got to consider what the government is going to do. We don't know, and that's why you can hedge your bets. You can do a little in traditional IRA, get some tax deductions now on your income, and you can do a little on the Roth IRA. Without knowing what your take home income is, I can't say one way or the other which is going to be better for you. Nothing, you cannot roll your 401(k) into an IRA until you leave the company, you've gone somewhere else, so that's just off the table for now.

When you do leave, yeah, I would absolutely do that, because it gives you more choices, better options which you found. The ones you've got now, not so good. Is an IRA versus a 401(k) faster to get your money to grow? Yes and no. Both of them, they're just containers. They're empty containers and you put investments in them. If I've got two buckets, if I got an IRA bucket and I throw 20 sunflower seeds in it, and then I've got a 401(k) bucket and I throw 20 sunflower seeds in that, they're going to grow at the exact same rate given the same amount of water and sunshine and fresh air.

In your case, you've got your 401(k). You've thrown the 20 seeds into it, but the seeds, some of them got a little mold on them, some of them may be from last years crop that they packaged up. Maybe they don't get as much sunlight. Maybe they don't get as much water. Maybe they don't get as much oxygen, whereas your IRA over here, you have total control on that. You can, "I want to give a little more sunshine. I am going to ship it over here. I'm going to water it a little more each day," because your IRA, the options what you can do in those are infinite, because you have full control over all of the investments within it.

401(k), very limited. Yes and no. The only reason a money in an IRA would grow faster if given identical amounts is because you have more options, you have stuff with lower fees, and you can do more in it. 401(k), they're limited if you have no company match. If the companies match, that's different. That's free money. That's going to of course grow a little bit quicker.

401(k), another thing, that has legal protection. I throw that out there. It's not usually one thing I concern myself with. I don't let it guide my choice. What I mean is, if somebody comes along, or wants to sue you, you are terrible with money, which you're clearly not. Since you're saving up, you have run the risk of bankruptcy, that money is protected. 401(k) has greater legal protection compared to an IRA. Again, I don't let it guide my choices, but some people might.

I'm not planning on going bankrupt, so I don't say, "Well, I'm going to leave my money in a 401(k) which has crappy options, instead of an IRA where I can make more money, pick my own investment choices." Thanks, Nate, for the question. Got to pay some bills. Back before you know it.

Scott Alan Turner here. For those of you that are my long-term listeners, you know I'm not one of those guys on the radio who promotes every product that shows up on their desk. You're never going to hear me trying to get you to buy wine from Texas, or recommending you buy air conditioning service from some company in a city I've never lived in. No. I have a name to uphold to you, my valued and awesome listeners, but if I were to recommend something to you, I would tell you about Public Bread.

You need to make a sandwich? Bread pudding. Stuffing for a turkey. Bread crumbs for your Parmesan chicken. What else do you use bread for? Toast. Feeding the ducks. You can't go wrong with Public Bread. Twice the yeast and half the sugar of normal bread, you can taste the difference. Public Bread is made by the Brotherhood of Millers, and the brotherhood uses only the finest flour. True Roman bread for true Romans. Available in the bread section of select grocery stores. Tell them Scott Alan Turner sent you.

The more you share the show, the quicker that music can be something good, something good, and the intermusic could be something good, too. Where's the Foo Fighters, Linkin Park, Metallica? Probably not Metallica. They'd probably charge me way too much. ACDC. All your favorite rock bands. We can use that music, just as soon as we climb the charts. Right now we're floating down around 150 in the business section, which is awesome. There are 250,000 podcasts out there total. We're doing awesome. We're doing awesome, and thank you so much. I appreciate that.

We probably got to get up to at least top 20 and regularly in the top 10, which is challenging. We will get there. We will get there over time with your assistance as long as you share the word, and then we can have the good music. Still going to have the cats, but we can get rid of the old music, bring in the good stuff. Jessica from Alabama says,

Jessica: "My mother has recently come into a situation where she stands to be awarded a large amount of money. I'm talking at least a couple million dollars, and we could use some advice."

"Mom is currently in her 50s. No one in our family has ever had this sort of money before. We've always been a low-income family, and the primary breadwinner was in public service. We already planned to purchase her a nice house so she can be comfortable for the rest of her life, but my mom is at a loss as to what to do beyond that. We'd like to find ways to make this money last her as long as humanly possible, up to and including living off interest as much as possible so that it lasts for longer, but we don't know the first thing about how to manage such a large amount of money."

"My mom is hoping for some low-risk options that she can explore. In addition, we both wonder if it is advisable to seek the help of a financial advisor or accountants. I'm sure the answer is probably yes in some respect, and how not to get taken advantage of by unscrupulous financial advisers. Any advice or suggestions, directions you can point us in for ways to examine our different options for my mom would be wonderful."

Scott A. T.: Several million dollars mom is getting. That's exciting. It's also super scary at the same time. Why is it scary? The vultures are going to be coming out of the woodwork. Well, vultures don't live in woodwork, but you get the idea. They're coming out, circling the wagon. Then you've got the second and third cousins you haven't seen in ten years, or you've never met. They all want mom to buy them cell phone plans, come out with their sob stories.

Number one priority, protect your new wealth. Like you said, we want it to last. We want the money to grow. We don't want to get ripped off. We don't want to take advantage of. How can you accomplish all those things? You got to have help. You got to have help. I have help. Catie and I got help when we first got married. The vast majority of people with wealth, they've got a team or some type of help. They have a network, people do I bounce ideas off of.

Even Warren Buffet, one of the richest people in the world, he's got a team to bounce questions off of. He's got help. I wouldn't make any decisions at all until you've got some type of a neutral third-party helping you out, there to advise you, answering your questions. What type of help are we looking for? My personal preference, the one I always recommend, a fee-only certified financial planner. Fee-only CFP. Why them and not somebody else?

They have what's called a fiduciary duty. You're looking for a fiduciary, somebody who is legally bound, legally bound by the law, someone who has signed this secret covenant in stone over here to do what's in your best interest above all else. They do what is in your best interest. They're not trying to sell you something that you may or may not need, and get a cut to line their pockets or whatever. Their fees are straightforward.

My opinion, and this is my opinion, if somebody is not a fiduciary, there is a conflict of interest there. You don't know whether they're wanting you to give them something, wanting you to buy something because they're making money off of it, or if it's really in your best interest. When you're dealing with a fiduciary, that's off the table. It's always in your best interest what they're doing. The next question, what's that going to cost me? What's that going to cost me? Sounds expensive.

You have a big sum of money, and with that amount of money, what you're normally going to pay, it's called assets under management, AUM. Say $1 million, somebody to manage that for you and advise you in a comprehensive way, typically they'll get 1%. You're going pay them $10,000 a year to manage those assets. Ten grand? Sounds outrageous, doesn't it? It's a huge check to write, but it's not an expense. It's just another investment. Your mom is insuring herself, albeit what seems like a lot of money.

She's insuring herself from ending up one of these lottery winners that are broke in 12 months, and an advisor is going to help your money make you more money, things that you're probably not yet familiar with, investing, the investing world, how to put your money to work for you. All those things that you can learn on your own, which I of course recommend you want to understand what someone is helping you with, and get that level of knowledge so that you're comfortable with it.

You don't want to hand over all the money and say, "Here, you go manage this for me." That's one of the ways people make big money mistakes when they come into big money, it is turn a blind eye, say, "I don't want to do this. You go do it for me." The challenge you're going to face is not finding someone who is qualified in order to help you out. It's finding someone that you're going to feel comfortable talking about money with, and your family, and your dreams, and your hopes, and your futures, and your goals, and all that stuff.

You want to start with looking for somebody who's a fiduciary, and then you want to look for somebody that you actually like, and you're going to want to work with. I'm going to give you a referral offline. I'm not going to put it on the show, and that's going to help you get started. Thanks, Jessica, for the question. Final thought of the day, people lose their way when they lose their why. That is from Gail Hyatt. That is a great quote, something to think about.

People lose their way when they lose their why. If you're off course, made some maybe bad decisions past few days, today, five minutes ago, whatever it was, we are where we are. Figure out what your big why is. Why you're trying to do whatever it is that you're trying to do, whatever your goals are, whatever you're shooting for. Why, not the what. What is great. What gets the stuff started, gets you going, but why do you want to get to the what? This is sounding like an English class now. Who, what, where, when, why?

It's the why. What is your what? All right, I'm confusing myself at this point. Figure out what the goal is. The goal is not a million dollars. It's not a big house. It's not early retirement. It's not to be debt-free. It's not to have money. Those are all good goals, but they're just ... It's not why you're doing it. Nobody wants a millions dollars just to have a big pile of money sitting next to them. It's not like a nice, fuzzy cat sitting on your lap or hanging out next to you.

You can pet a cat. It's relaxing. I would never pet a pile of money. That'd be just weird. That'd be weird, but what is that million dollars represent to you? Financial freedom so you can spend more time with your family, go on a vacation, just relax. Take away the stress, all the things. Those are the words. Those are the words. When you lose your way, think about what your whys are. Those are the confusing words. Please share the love, text the link, get FR to three people you know.

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