PRIME CAPITAL
INVESTMENT ADVISORS

UNDERSTANDING INCOME TYPES

Understanding income types and tax implications is essential to enhancing your financial strategy for long-term wealth growth.

Recent studies underline how nuanced tax strategies can influence broad economic growth and personal financial outcomes, emphasizing the power of informed income management in shaping your financial future. Dive deeper into how these economic forces operate and discover ways to optimize your financial landscape. - The "recent studies" are outlined throughout: taxfoundation.org/research/all/state/income-taxes-affect-economy/

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Let's start by exploring the three common types of income.

1) ACTIVE INCOME

Active income, the most prevalent form of earnings, comes from traditional employment where you exchange time for money, typically through a W2 paycheck. While this setup is straightforward, its major drawback lies in limited tax advantages. You can mitigate this by deferring income through traditional 401(k) plans or setting up Individual Retirement Accounts (IRAs), though these options involve future tax obligations and have contribution limits.

Alternatively, self-employment offers a different kind of active income. Whether you're running a service-based business charging by the hour or managing a product-oriented business, self-employment demands substantial time and energy. However, it does come with more nuanced tax benefits and retirement saving options that can significantly lower your tax liabilities.

Navigating these opportunities often requires expert advice to ensure you're not only minimizing your tax burden but also maximizing your wealth potential. An improper tax structure can severely impact your net worth if self-employed. Engaging with a financial advisor could be pivotal in adjusting your financial strategies to secure a more prosperous future.

Are you ready to optimize your income and reduce your tax burden? Don't let another tax season pass you by. Schedule a consultation with us today and take the first step towards a more secure financial future. Remember, a small tweak in your financial strategy can potentially mean more money in your pocket and less to Uncle Sam. Act now!

2) PASSIVE INCOME

Passive income is income we should probably all strive for. It's derived from assets you've built up that you don't have to spend much time on. This is sometimes called "mailbox money," where money just keeps coming in—you've basically traded some assets or money for an income stream that is recurring.

For instance, you might have a real estate portfolio; if you also have a real estate management company that manages repairs and other issues for you and you don't have to spend any time on it, it's considered passive income. (If you handle the management, there may be different tax implications—it's important to work closely with a tax professional so that you understand the many explicit IRS tax codes related to real estate.)

Creative works or creative content can also generate passive income in the form of residuals or ads. Passive income for practical purposes can also include Social Security. But even with Social Security you will have to consider tax implications, because depending on your combined annual income calculation, you may have to pay taxes on up to 85% of your Social Security benefits! (Combined income is your adjusted gross income, plus any nontaxable interest you earned (and certain other items) and half of your Social Security income.) That is why it is so important to work with a financial advisor who focuses on retirement—before you actually retire or file for Social Security.

Take action today to work towards a more financially secure future. Consult with us to discover ways to help optimize your passive income strategies and navigate the complexities of tax implications efficiently.

3) PORTFOLIO INCOME

Portfolio income, much like passive income, requires minimal effort for the returns it generates. This income might stem from dividends, bond interest, or interest from bank accounts and CDs. The key is not just to earn this income but to manage it wisely with the help of financial and tax advisors to mitigate tax burdens through strategies like tax-loss harvesting.

As you approach retirement, it becomes crucial to rebalance your portfolio to reduce risk and optimize for tax-advantaged income. Achieving sufficient portfolio income not only prepares you for a comfortable retirement but also provides the freedom to step away from work when you choose—whether to enjoy good weather or simply to take a break.

Remember, when active income ceases, shifting to a reliance on passive and portfolio income will be essential. Start planning today to better prepare for future expenses and help reduce your stress by understanding your finances.

Are you ready to take control of your financial future? Contact us today to learn how portfolio income can potentially become a pivotal part of your retirement strategy. Let's work together to build your financial future.

Let's work together to create a plan to build your wealth by building your cash flow from multiple sources of income.

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