

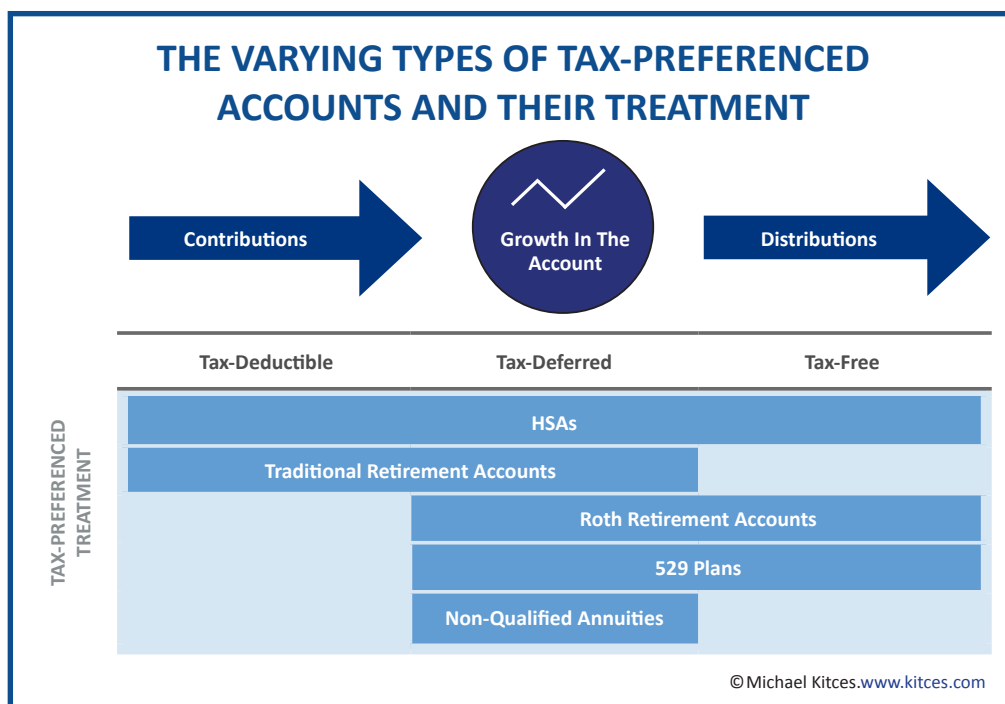
The Federal government offers three types of tax incentives for saving into various types of accounts. The three types of tax preferences are tax deductibility on contributions, tax deferral on investment growth, and tax-free distributions.¹ Many types of accounts offer one, two, or even all three types of tax preferences. How can you best evaluate the various choices and maximize your tax efficiency?

Single Tax Preferred Accounts: Many accounts offer a single tax preference—tax-deferred growth. For instance, non-qualified annuities fall into this category. Non-qualified annuities only offer one type of tax preference—tax deferral, as contributions are not tax deductible and distributions are taxed.

Double Tax Preferred Accounts: Many retirement accounts offer double tax preferences. There are two basic types of tax-preferred retirement accounts: *Traditional* and *Roth* IRAs. *Traditional* accounts typically provide a tax deduction for contributions up to a certain limit and growth inside the account is tax-deferred until distribution. *Roth* accounts do not allow tax deductible contributions, but growth inside the account is tax-free and the distribution is typically tax-free when certain criteria are met. Similar to Roth accounts, but with more restrictions, 529 Plans allow for both tax-deferred growth and then tax-free distributions when used for qualified education. Some states allow for a small tax deduction or credit on contributions to a 529 Plan.

Triple Tax Preferred Accounts: The Health Savings Account (HSA) is the only account that offers triple tax preferences with tax-deductible contributions, tax-deferred growth, and tax-free distributions. However, HSAs are only available for people with high deductible healthcare plans and tax-free distributions are only allowed when used for qualified medical expenses.

There are many investment account options to consider that may help increase your tax efficiency. It is important to weigh the trade-offs when making investment decisions, such as limitations on contributions, penalties for early withdrawal and restrictions on the use of your funds. Please consult with your financial and tax advisors to develop the investment strategy that is right for you.



1. Kitces, M. (2018). The hierarchy of tax-preferred savings vehicles for high-income earners. Retrieved from <https://www.kitces.com/blog/hierarchy-tax-preference-savings-vehicle-roth-high-income/>