

### The Value of Tax Deferral

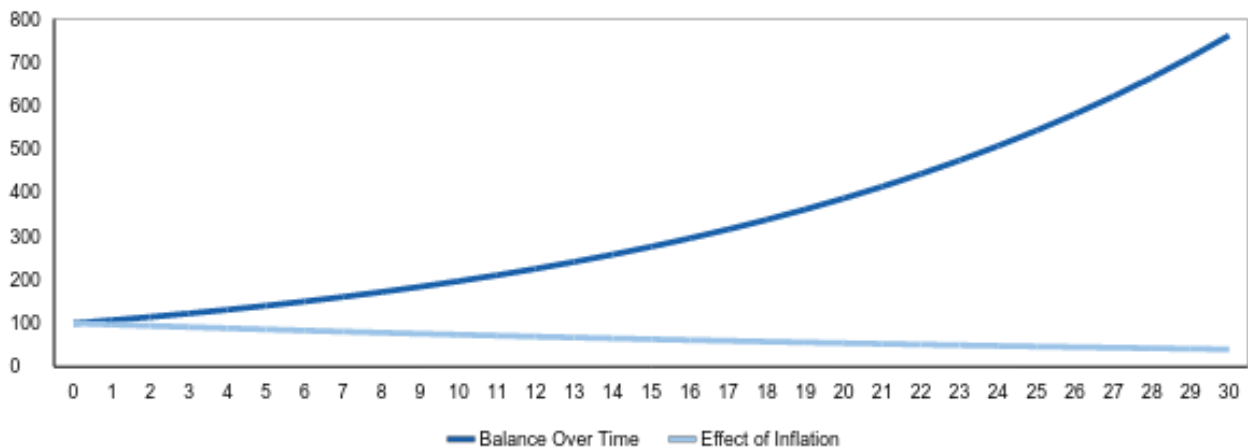
#### The Cost of \$100,000 of Taxes Paid Today vs. Paying Then in 30 Years

Every day for a semester my law professor would say, "Taxes deferred are taxes avoided".

This may not seem intuitive since taxes ultimately have to be paid. However, when you take into account the present value of paying tax today versus the present value of paying tax in the future, the truth of this statement is clear.

Below is a comparison of the present value of \$100,000 (and its subsequent growth) versus the present value of deferring the tax and paying it in 30 years (assuming an inflation rate of 3% and investment returns of 7% net).

### The Value of Tax Deferral



The value of such deferral can impact not only the end balance of an investor's account; it may also offer much greater access to investments in the first place.

Many years ago I had a client who had recently been laid off and was given an approximately \$1,000,000 severance package. Instead of paying tax immediately on this amount he was able to deferred it for a couple of years and re-invest it alongside institutional investors in his start up venture. Without this downpayment his investors would not have co-invested with him as he lacked proportionate 'skin in the game' that they had.

The investment went well for the client; the deferral period ended, he paid his tax but continued his work in the start up. Fifteen years later this company is a multi-billion dollar multi-national company (you have heard of it) and the client is the CEO - something that the client never would not have had access to without the benefits of tax deferral.