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## Tax Diversification in Retirement Planning

In the same way that you diversify your investments, you'll want tax diversification too.

**Tax diversification involves making decisions today based upon what you think tax rates will be in the future.** This will help to minimize the total amount of tax you'll pay in retirement.

Choose the right tax vehicle for the correct tax purpose. For example, keeping dividend-paying stocks in a traditional IRA allows your account to grow quickly when you reinvest the dividends while you defer paying income tax.

Keeping growth stocks in your Roth IRA allows you to enjoy the appreciation tax-free when you make withdrawals after age 59 ½ and have held the Roth IRA for five years. All retirement planning should include cash invested in brokerage accounts to avoid paying early withdrawal penalties when you need money before retirement. Since you'll pay tax on earnings from your brokerage account each year, keep the funds invested in municipal bonds for generally tax-free interest.



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