How I Plan to Increase My Annual Income to $600,000

As long time readers, many of you have picked up on the fact that I am a big believer in setting goals and long term visions. This is exactly why I share my annual goals and monthly progress in achieving those goals. It's also why I shared my own blueprint in achieving a net worth of $10M and $600,000 in annual income.

When you put together a 20 year vision, you have to accept that lots of variables can change along the way. Today, I really want to zero in on the income side of this 20 year vision to $10M in net worth. First, my income assumptions have been absolutely blown out of the water, and we are much further along at just shy of 20 months into the plan.

Check Point	Age	Income
Jan-15	28	178,800
Jan-16	29	198,800
Jan-17	30	218,800
Jan-18	31	238,800
Jan-19	32	258,800
Jan-20	**33**	**278,800**
Jan-21	34	298,800
Jan-22	35	318,800
Jan-23	36	338,800
Jan-24	37	358,800
Jan-25	38	378,800
Jan-26	39	398,800
Jan-27	40	418,800
Jan-28	41	438,800
Jan-29	42	458,800
Jan-30	43	478,800
Jan-31	44	498,800
Jan-32	45	518,800
Jan-33	46	538,800
Jan-34	47	558,800
Jan-35	48	578,800
Totals		**7,954,800**

To the left is the income milestones that I had projected at the inception of the blueprint. In a recent update to the blueprint, I pointed out that we had completely blown our income projection for 2015 out of the water.

In 2015 we finished the year with **$254,359 in gross income or 42% higher than projected** ($178,800 projected).

We are now 8 months into 2016 and at this point we have very good visibility into what our ending income will be. In the July Financial update, I shared that we were now forecasting to **finish 2016 with $315,000 in gross income**. Again **this is 58% higher than projected** ($198,800 projected).

Before we move into expectations for 2017, let's first put this into context. We are going to finish 2016 6 years ahead of the plan, earning what we projected to be earning in 2022.

THIS IS ABSOLUTELY MIND BLOWING TO US!

On the flip-side, this goes a long way in showing what is possible when you put you mind, energy, and focus to a vision. The subconscious goes out and figures out how to make it a reality. I have also recently learned that the subconscious doesn't really have the ability to decipher time.

A few months ago, I shared on the blog that I was up for promotion to VP, which quickly turned into a promotion to the C-Suite. This is another one of those variables that is hard to plan for (at least the timing of it). Well, I now know that this will happen by the end of 2016, and with it comes another huge boost to earnings. I am currently projecting a $117,000 increase in total compensation in 2017.

This puts our **projected gross income for 2017 at $437,000 or 100% higher than projected** ($218,800).

MIND FUCKING BLOWN!!!

Source kotaku.com

This will move us 12 years ahead of schedule to an income level we had not projected until 2028 when we were 41 years old. We are incredibly grateful for the opportunities we have been afforded, but also realize that there has been a lot of hard work to earn those opportunities.

At the rate things are currently moving, we should reach an annual income of $600K by 2018/2019.

Everything is great…or is it?

Heavy Concentration Risk in Day Job

I won't deny that our income and career trajectories have far exceeded our wildest expectations. Some days I wake up and wonder if the last two years had all been a dream. **It's not a dream, it is reality**. But there is another reality that we seriously need to start thinking about.

That other reality is that we have a lot of risk to our income due to it's concentration in a few sources. We also have the majority of our income coming in the form of earned income vs. passive income. If Mrs. GYFG were to lose her job, our income would fall by 27% in 2017. If I lost my job, our income would fall by 68%. If you do the math, this means that we only have 5% of our income that is passive (100-27-68 = 5).

Although I think the probability of either of us losing our jobs next year is very low (let alone the next 5 years). It doesn't change the fact that the prudent thing to do while our income is growing so rapidly, is to aggressively start putting that money to work to create additional cash flow that is not tied to our day jobs.

We need to do a better job of converting our earned income into passive income streams.

Another Consideration: Tax Efficiency

Many of you reading this are already aware of the rule that governs our financial life, and that is the law of 50/50. The basic's of this principle is that we aim to save 50% of our after tax income and spend the remaining 50% guilt free.

That said, we have a **longer term goal** to actually save 50% of our gross income (a much harder milestone to reach). This is where tax efficiency really comes into play. The more your earned income grows, the higher your marginal tax rate. Based on our $600K annual income goal, this lands us in the highest federal tax bracket of 39.6% (assuming it's all earned income). We also have to consider state taxes here in California, which based on the $600K goal, lands us in the 12.3% tax rate (since it's under a million, we are clear of the 1% surcharge).

When you add that up, our marginal tax rate will be 51.9% on earned income. This would put our effective tax rate somewhere in the 35-39% range (depending on deductions, exemptions, and credits).

Let’s assume for a moment that all $600K comes from earned income. At an effective tax rate of 35% we would pay $210,000 in taxes, need to save $300,000 (based on 50% gross savings rate), and would have $90,000 remaining for living expenses. The math doesn’t work, as we currently need approximately $110,000/year to maintain our chosen lifestyle.

And at a 39% tax rate, we end up paying $234,000 in taxes and would have only $66,000 left over for living expenses.

Note: For illustration purposes (and simplicity), deductions are ignored. Also the numbers are all ball park, so please just take them as close enough.

That means that in addition to diversifying our income streams, if we want a chance at hitting our gross income savings goal of 50%, we are going to have to start focusing on creating passive income streams through more tax efficient vehicles.

Now this is not the first time this has entered my thoughts, but I am starting to feel the pressure to take action in this area.

And it all keeps pointing back to investing in Real Estate and potentially other more tax efficient assets.

Conclusion

We really need to start putting our earned income to work in order to create more tax efficient cash flows. This will help us accomplish two things:

1. **Diversification of Income**: I would like to increase our passive income from 5% to 25% over the next 3-5 years.
2. **50% Gross Income Savings Goal**: We need income that is subject to lower tax rates to make this goal achievable, especially knowing that we have no interest in lowering our living expenses. In fact, we believe we have hit the sweet spot with the amount of money we spend to live the lifestyle we desire.

I have been talking about it for a year, but I think the next step is really working towards getting a 3rd piece of real estate. We just got word that we should be getting the $50,000 we loaned out as a hard money loan by the end of September, when escrow closes. We have one more refinance on our condo that we would like to finish in January of 2017, that we were unable to complete earlier this year, but have taken the necessary steps to make it happen in early 2017.

We don’t expect to be required to bring in very much money to get the refinance done on our investment condo. Back in April, it was looking like a $14,000 cash-in refinance to get the right LTV (loan to value). Property values have continued to rise, and we will have had another $4,000 in principal reduction by January of 2017. So, at the most I see this costing us $10,000 (mostly paying down the existing balance, maybe $1,000 in total closing costs at most).

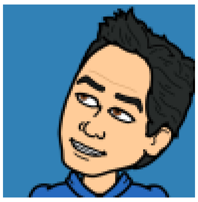
January 2017 will also be a big bonus month for me. By the end of January we should have close to $155,000 of cash ready to deploy (after accounting for refinance).

We have come to accept that we are not ready to execute on another property in 2016, there are just far too many things going on, and the holidays will be here before we know it.

2017 will be the big push in moving us in the direction of more passive and tax efficient income.

What would you do? What other tax efficient assets should we be considering besides real estate? Any tax professionals that read the blog, that have any advice on how else to reduce our effective tax rate?

-Gen Y Finance Guy



Gen Y Finance Guy

Hey, I’m Dom - the man behind the cartoon. You’ll notice that I sign off as "Gen Y Finance Guy" on all my posts, due to the fact that I write this blog anonymously (at least for now). I like to think of myself as the *Chief Freedom Officer* here of my little corner of the internet. In the real world, I’m a 30-something former C-Suite executive turned entrepreneur turned capital allocator. I am trying to humanize finance by sharing my own journey to Financial Freedom. I believe in total *honesty* and *transparency*. That is why before I ever started blogging, I decided that I would share all of my own financial stats. I do this not to brag, but instead to inspire motivate, and also to hold myself accountable. My goal is to be a beacon of hope, motivation, and inspiration for *you*, the reader, by living life by example and sharing it **all** here on the blog. My sincere hope is that you will be able to learn from me - both from my successes and my failures! Read More