

Smart Tax Planning



SMARTPATH

This session **WILL**

- Give you a better understanding of how taxes work
- Help you understand key changes for the 2018 tax year
- Give you insights on how to incorporate taxes in your financial planning

This session **WILL NOT**

- Help you save on your 2017 taxes
- Review your specific tax situation
- Highlight tax evasion strategies

Please see your tax professional....please....no really, go see them

The Key Questions

Taxes at 30K Feet

When tax rates matter

Deductions and credit (with 2018 updates)

Watch out & tips

Anatomy of the 1040



Form **1040** Department of the Treasury - Internal Revenue Service (IRS) **2013** U.S. Individual Income Tax Return OMB No. 1545-0047 IRS Use Only—Do not write or staple in this space.

For the year Jan. 1-Dec. 31, 2013, or other tax year beginning , 2013, ending , 20

See separate instructions.

Your first name and initial Jeremy	Last name Go Curry Cracker	Your social security number
If a joint return, spouse's first name and initial Wesley	Last name Go Curry Cracker	Spouse's social security number

Who are you?

If more than four dependents, see instructions and check here ☐

d Total number of exemptions claimed				2
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7 Wages, salaries, tips, etc. Attach Form(s) W-2 7 0

How much did you make?

21 Other income. List type and amount	21	
22 Combine the amounts in the far right column for lines 7 through 21. This is your total income	22	91,752
23 Educator expenses	23	

Deductions

36 Add lines 23 through 35	36	91,752
37 Subtract line 36 from line 22. This is your adjusted gross income	37	

For Disclosure, Privacy Act, and Paperwork Reduction Act Notice, see separate instructions. Cat. No. 11320B Form **1040** (2013)

Anatomy of the 1040

Form 1040

Tax and Credits

Standard Deduction for:

- People who check any box on line 39a or 39b or who can be claimed as a dependent, and instructions.
- All others:
- Single or Married filing separately, \$6,100
- Married filing jointly or Qualifying widow(er), \$12,200
- Head of household, \$8,950

How much you owe (based on income)

Credits

Other Taxes

More taxes

Payments

How much you paid

Refund

Tax or refund

Amount You Owe

Third Party Designee

Sign Here

Paid Preparer Use Only

Form 1040 (2013)

Anatomy of the 1040

Income



Type of income

- Deductions



Good if aligned with fuel

-

=

Taxable Income

×

Tax rate



Type & amount of income

=

Tax

-

Credits



Good if aligned with fuel

+

Other tax



Mostly self employed

=

Your taxes

-

What you paid



Your W-4

=

Tax you owe or Refund

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Amount of Income

**Marginal Tax
Bracket**

VS.

**Effective Tax
Rate**

Type of Income

Ordinary

VS.

Capital Gains

Marginal Tax Rates

You pay a different tax rate for each segment of your income

Individual Taxpayers

If Taxable Income Is Between:	The Tax Due Is:
0 - \$9,325	10% of taxable income
\$9,326 - \$37,950	\$932.50 + 15% of the amount over \$9,325
\$37,951 - \$91,900	\$5,226.25 + 25% of the amount over \$37,950
\$91,901 - \$191,650	\$18,713.75 + 28% of the amount over \$91,900
\$191,651 - \$416,700	\$46,643.75 + 33% of the amount over \$191,650
\$416,701 - \$418,400	\$120,910.25 + 35% of the amount over \$416,700
\$418,401 +	\$121,505.25 + 39.6% of the amount over \$418,400

Marginal Tax Rates

\$80,000 Taxable income (*after deductions*)

Perception

\$80,000
x 25%

= \$20,000

Actual (2017)

Bracket	Tax
10% up to \$9,275	\$927
15% from \$9,275 - \$37,650	\$4,256
25% from \$37,650 - \$91,150	\$10,587
Total	\$15,770

Actual (2018)

Bracket	Tax
10% up to \$9,525	\$952
12% from \$9,526 - \$38,700	\$3,500
22% from \$38,701 - \$82,500	\$9,086
Total	\$10,387

25%

20%

13%

Effective tax rate

2017 vs. 2018 Rates

Tax brackets for single filers

2017		2018	
10%	\$0–\$9,325	10%	\$0–\$9,525
15%	\$9,326–\$37,950	12%	\$9,526–\$38,700
25%	\$37,951–\$91,900	22%	\$38,701–\$82,500
28%	\$91,901–\$191,650	24%	\$82,501–\$157,500
33%	\$191,651–\$416,700	32%	\$157,501–\$200,000
35%	\$416,701–\$418,400	35%	\$200,001–\$500,000
39.6%	\$418,401 or more	37%	\$500,001 or more
Standard deduction:	\$6,350	Standard deduction:	\$12,000
Personal Exemption:	\$4,050	Personal Exemption:	Eliminated

Ordinary vs. Capital Gains

2017		
Ordinary Tax Rate	Short Term Gains Tax Rate	Long Term Capital Gains Tax Rate
10%	10%	0%
15%	15%	0%
25%	25%	15%
28%	28%	15%
33%	28%	15%
35%	25%	15%
39.6%	28%	20%

1

All else equal, you would prefer your income as capital gains.

2

All else equal, keep bond interest and short term capital gains in tax sheltered accounts

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Is the tail wagging the dog?

Tax Deduction	Tax Credit
<p>Taxable Income: \$50,000</p> <p>Deduction: \$800</p> <p><i>A deduction decreases your taxable income</i> →</p> <p>Adj. Taxable Income: $\begin{array}{r} \\$50,000 \\ - \\$800 \\ \hline \\$49,200 \end{array}$</p> <p>Tax Owed (15%): $\begin{array}{r} \\$49,200 \\ \times 15\% \\ \hline \\$7,380 \end{array}$</p>	<p>Taxable Income: \$50,000</p> <p>$\begin{array}{r} \\$50,000 \\ \times 15\% \\ \hline \end{array}$</p> <p>Tax Owed (15%): \$7,500</p> <p>Credit: \$800</p> <p><i>A credit reduces what you owe, dollar for dollar</i> →</p> <p>Adj. Tax Owed: $\begin{array}{r} \\$7,500 \\ - \\$800 \\ \hline \\$6,700 \end{array}$</p>

*"Above
the line"*

Everyone Deductions



- 401(k) Contributions (\$18,500)
- IRA Contributions (\$5,500)
- Tuition and fees deduction (\$4,000)
- ~~Moving Expenses~~
- ~~Alimony~~
- Student loan interest (\$2,500)

*"Below
the line"*

Standard
Deduction

Itemized
Deduction

Deductions

"Above
the line"

Everyone Deductions

"Below
the line"

Standard Deduction

Itemized Deduction

	2017	2018
Single	\$6,350	\$12,000
MFJ	\$12,700	\$24,000

- State/Local taxes
Caps and limit of \$10K
- Mortgage interest
First \$750K of debt
- Charitable contributions
Limit raised to 60% of gross
- Medical expenses
Lower limit to 7.5% of AGI
- ~~Tax prep, unreimbursed employee, misc.~~

Child tax credit (\$1K → \$2K)

Earned income tax credit

Child and dependent care expenses

Learning / American opportunity credit

Foreign tax (or other state tax) credit

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Parting Shots

You check may be bigger, be smart

Taxes don't change the 7 tank system

Itemizing will be less attractive for most

If you're paying more in taxes, you're generally making more money

Agenda

Fuel & The 7 Tank System in Action

Top 5 Money Questions

Getting Started with Coaching

Parting Shots



How do I get beyond
living check to check?

Track weekly; debit/cash only

	Transaction	Amount	Balance
1/24	Beginning		\$205
1/25	Lunch (\$10) Gas for car (\$20)	(\$10)	\$195
1/25	Gas for car	(\$20)	\$175
1/26	Payday	+\$800	\$975
...	1/31		\$350

Income

- Work overtime
- Sell stuff
- Uber?

Expenses

- Cable
- Cell phone
- Eating out

Financial sacrifices are temporary.
Financial freedom is forever.



How can I payoff
my debt?

Snowball vs. Interest Rate First

- 1 Pay all payments on time
- 2 Select **1 debt** to add fuel and payoff
- 3 When finished, roll that payment and fuel to the next debt

Who goes first?

Card Name	Outstanding Balance	Interest Rate	Min Payment	
VISA	\$800	22.50%	\$ 24	
AMEX	\$2,200	29.90%	\$ 66	Highest Int. Rate
Home Depot	\$450	12.90%	\$ 15	Lowest Balance
Target	\$550	8.90%	\$ 17	
Total	\$ 4,000		\$ 122	

Stick To Your Strategy



Am I ready to
buy a home?

SmartPath 7 Tank System



- 1 Retirement Match
- 2 1-Month Emergency Fund
- 3 Payoff Bad Debt
- 4 3-6 Month Emergency Fund
- 5 20% Gross to Retirement
- 6 College Savings*
- 7 Bucket List*

4 Critical Questions

1 Do I have a 1-month emergency fund and low bad debt (*credit card, IRS, 401(k), etc.*)?



You'll need cash after the purchase

2 Do I have enough free cash saved to put at least 10% down? (*and still have an emergency fund*)



Have equity on Day 1; don't be house poor

3 Can I buy a home in a good location?



Good elementary school = good resell value

4 Do I have the stability to purchase?



Assume 5 years to break even



Am I on track
for retirement?

The Future Leaky Bucket



$$\text{Retirement Income} - \text{Retirement Expenses} > \$0$$

Social Security

Pension

4% of retirement
savings (per year)

Passive income

Housing (paid off?)

Utilities

Debt (paid off?)

Transportation

Medical

Food/Entertainment

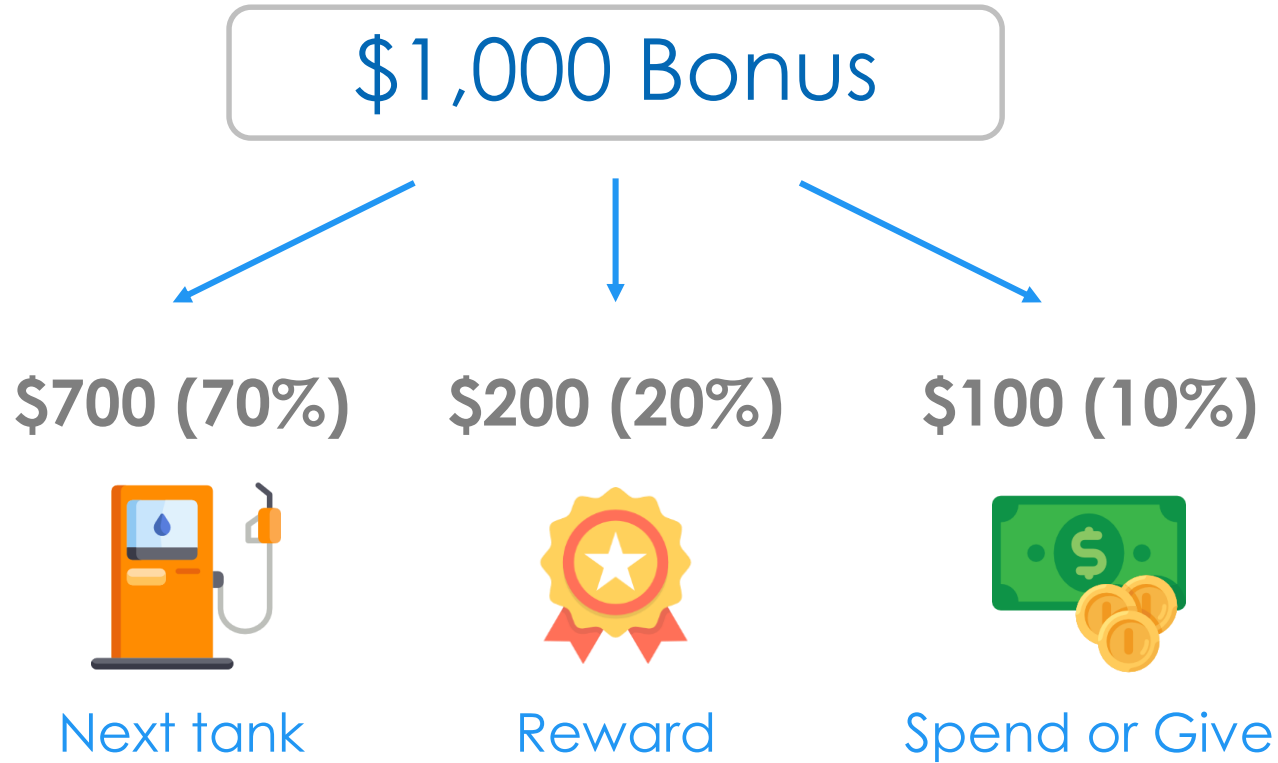
Have you used myFiTage?



What do I do if I hit the lottery?



Smile!



THANK YOU

