



Personal Finance: Another Perspective

Tax Planning: Paying All You Owe and Not a Penny More

Updated 2020-01-21



Objectives

- A. Understand how tax planning and can help you attain your personal goals and the principles of tax planning
- B. Understand the Federal tax process
- C. Understand the major tax features of our tax system and tax strategies to help lower your taxes (legally and honestly)
- D. Understand and create your Tax Plan



Your Personal Financial Plan

- Section V.: Taxes
 - What is your vision and goals for your taxes? (use [Tax Template](#) LT01-05)
 - What Tax Form and Tax Strategies did you use last year? What was your marginal and average tax rates?
 - What are your Plans and Strategies for the future?
 - What else can and should you do to reduce your tax bill to Uncle Sam?
 - What are your constraints and accountability?
 - Note: [Federal Tax Worksheet](#) (LT39) may be helpful



Case Study

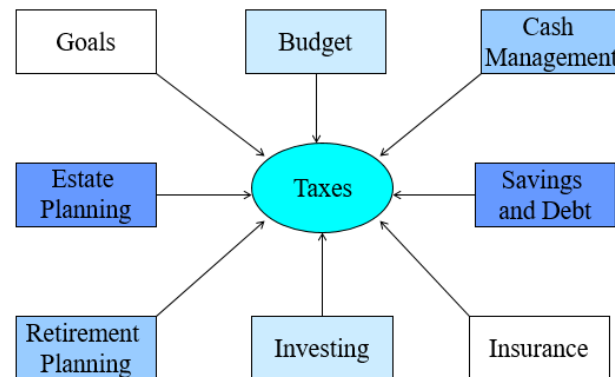
Data: Matt and Janina, ages 42 and 40, are married and filling out their taxes. They have 4 children, 3 under 17 and one a dependent in college. They contributed \$5,000 to a traditional 401k in 2020, \$2,500 to a flexible spending plan, and state and local taxes were \$11,000. They can only deduct medical bills above 7.5% of AGI and state taxes \leq \$10,000. The standard deduction for married filing jointly is \$24,800, and the child tax credit is \$2,000 per child under 18. Tax rates for 2020 for married filing jointly are:

- \$0 to \$19,750 10%
- \$19,750 to \$80,250 \$1,940 plus 12% of the amount over \$19,750
- \$80,250 to \$171,050 \$9,086 plus 22% of the amount over \$80,250
- Income: Earned Income \$80,000
- Interest Income 10,000
- Expenses: Home mortgage interest 6,800
- Un-reimbursed medical bills 9,063
- Tithes and offerings 9,600
- Calculations: Using the married filing jointly status and the information above, calculate their 2020 taxes first using the standard deduction and then using itemized deductions. Calculate their marginal tax rate and average tax rate on gross income.
- Recommendations: Which way should they calculate their taxes? What could they do to reduce their taxes?



A. Understand How Tax Planning can help Attain your Goals and Principles of Tax Planning

- Why tax planning?
 - Taxes are your largest single annual expense
 - The average American works more than 4 months just to pay his or her taxes
 - In sum, the less you pay Uncle Sam (for a given level of income), the more you have for your personal and financial goals!
 - Is there any area of your life that taxes do not impact?

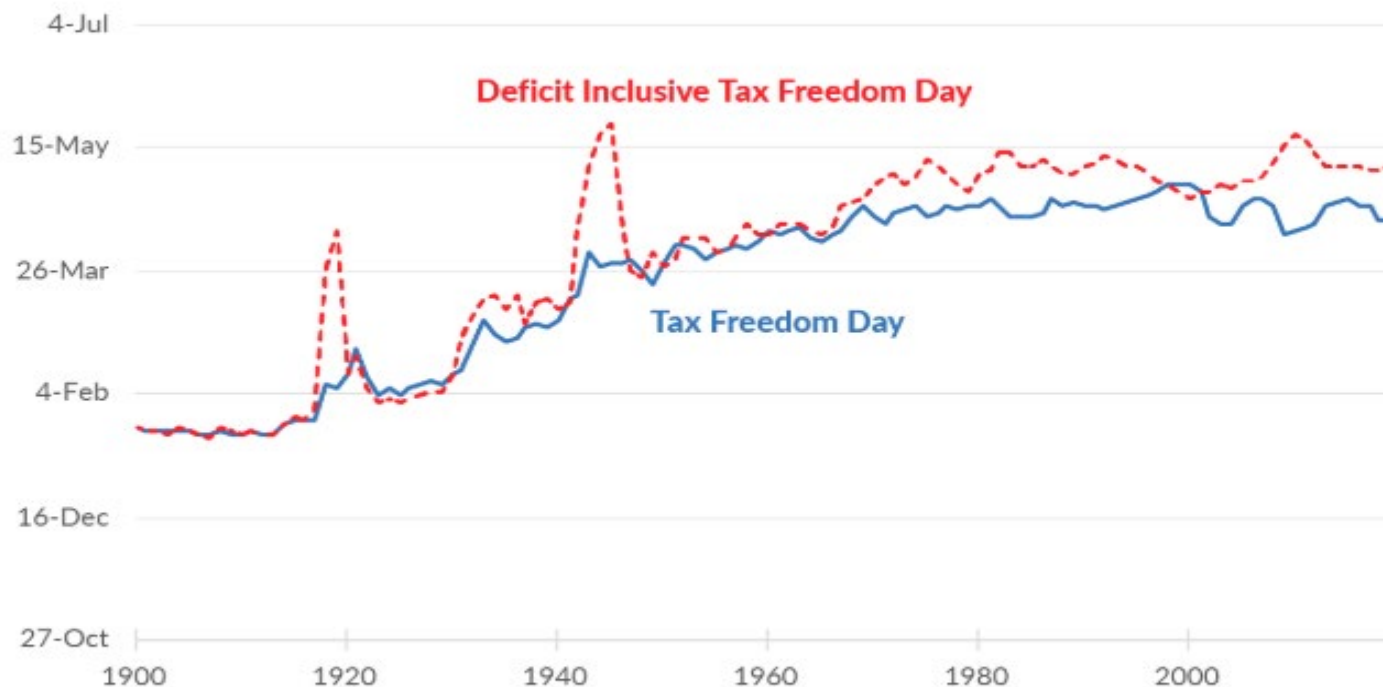




Tax Freedom Day 1900-2019

How Has Tax Freedom Day® Changed over Time?

Tax Freedom Day, 1900 to 2019



Source: Tax Foundation calculations.

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- Source: Tax Foundation, Washington, D.C., <https://taxfoundation.org/tax-freedom-day-2019>, Sept. 17, 2019.



Tax Planning (continued)

- The Lord has said:
 - Let no man break the laws of the land, for he that keepeth the laws of God hath no need to break the laws of the land. Wherefore, be subject to the powers that be, until he reigns whose right it is to reign, and subdues all enemies under his feet (D&C 58:21-22).
- Harold B. Lee said:
 - There seem to be those among us who are as wolves among the flock, trying to lead some who are weak and unwary, . . . who are taking the law into their own hands by refusing to pay their income tax. (*Ensign*, January 1973, p. 106.)



Tax Planning (continued)

- What are the principles of tax management
 - 1. Know yourself, your goals, vision, and values
 - 2. Seek, receive and act on the Spirit's guidance
 - 3. Keep good records for tax and other purposes
 - 4. Understand the tax system so you can make wise decisions regarding your finances
 - 5. Get good help if needed to make better decisions
 - 6. Pay everything you owe for taxes, and not a penny more



Tax Planning (continued)

Guiding Principles

- Know yourself, your vision and goals
- Seek, receive and act on guidance
- Keep good records
- Understand the tax system
- Get good help if needed
- Pay everything you owe

Doctrines

Identity

Obedience

Stewardship

Accountability

Stewardship

Agency



Tax Planning (continued)

From Obedience to Consecration

I am a child of Heavenly parents (identity), trying to live worthy of the Spirit (obedience), who is learning important information about the tax system (accountability), wisely keeping records of my income and expenses (stewardship), and getting good help when needed (stewardship). I act with integrity to minimize my tax payments to the government (agency), so that I can have sufficient assets to accomplish my personal mission and to accomplish the things that Heavenly Father and I and my family would have me accomplish.

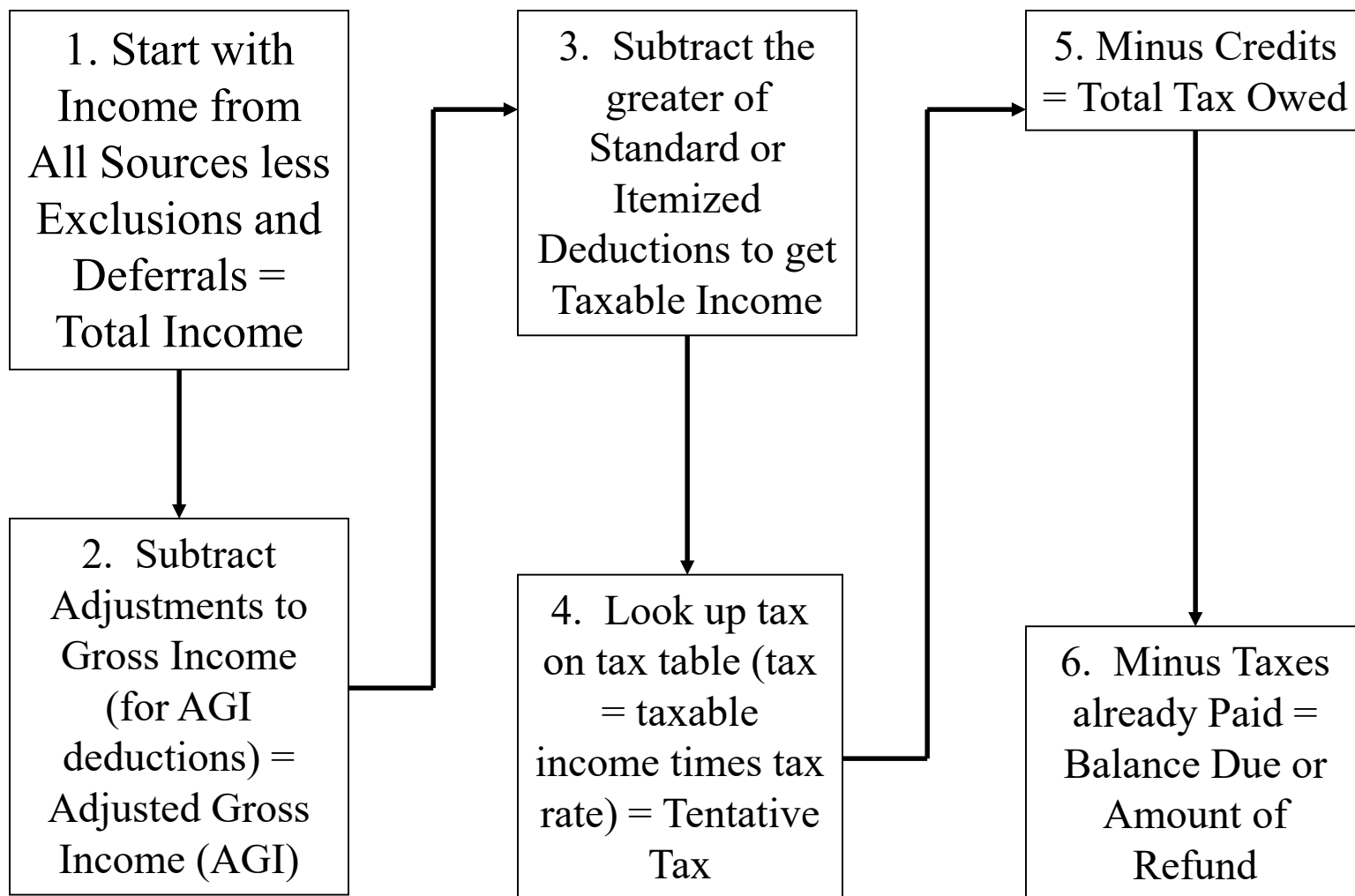


Tax Planning (continued)

- Any questions on the importance and principles and doctrines of tax planning?



B. Understand the Federal Tax Process






Definitions

- 1. Total Income
 - Total or gross income for tax purposes is all income, unless specifically excluded or deferred
 - Exclusions include certain employer provided fringe benefits and contributions, *contributions to qualified retirement accounts (401k, 403b, 457 plans, etc.)* that are not Roths, gifts and inheritances, life insurance proceeds, grants not in excess of college expenses, municipal bond interest, and interest for education savings vehicles used for education
 - Deferrals include like-kind exchanges

Form 1040 (2018) Page 2



1	Wages, salaries, tips, etc. Attach Form W-2		1			
2a	Tax-exempt interest	2a		b Taxable interest	2b	
3a	Qualified dividends	3a		b Ordinary dividends	3b	
4a	IRAs, pensions, and annuities	4a		b Taxable amount	4b	
5a	Social security benefits	5a		b Taxable amount	5b	

Standard Deduction for—



Definitions (continued)

- 2. Subtract Adjustments to get AGI
 - Adjustments are deductions from total income allowed by the IRS to get your Adjusted Gross Income (AGI):
 - Qualified medical (flexible) savings contributions
 - Contributions to non-Roth Individual Retirement Accounts and Health Savings Accounts (IRAs/HSAs)
 - Student loan interest/tuition/fees deduction (IRS 970)
 - One-half self employment tax, and losses including net capital losses (up to \$3,000), sole proprietorship losses, and active participation real estate losses

Deduction for		SOCIAL SECURITY BENEFITS		TAXPAYER'S CONTRIBUTION	
6	Additional income and adjustments to income. Attach Schedule 1			6	
7	Adjusted gross income. Combine lines 1 through 6			7	
8	Enter the standard deduction; otherwise, attach Schedule A			8	
9	Qualified business income deduction (see instructions)			9	
10	Taxable income. Subtract lines 8 and 9 from line 7. If zero or less, enter -0-			10	
11	Tax (see instructions). Attach Schedule 2 if required			11	

Orange Arrow pointing to line 7: Adjusted gross income. Combine lines 1 through 6.

Text on the left side of the form:
 Deduction for
 jointly or surviving
 widow(er),
 \$24,000
 • Head of
 household.



Definitions (continued)

- 3. Subtract Greater or Standard Or Itemized Deduction
 - Deductions are IRS allowed amounts (standard deduction) or taxpayer determined amounts (itemized deductions) to get taxable income from your AGI

Year	Standard Deduction \$ (MFJ)
2018	24,000
2019	24,400
2020	24,800

Standard Deduction for—
 • Single or married filing separately: \$24,000
 • Head of household: \$24,400

5a	Social security benefits	5a		b Taxable amount	5b	
6	Additional income and adjustments to income. Attach Schedule 1				6	
7	Adjusted gross income. Combine lines 1 through 6				7	
8	Enter the standard deduction; otherwise, attach Schedule A				8	
9	Qualified business income deduction (see instructions)				9	
10	Taxable income. Subtract lines 8 and 9 from line 7. If zero or less, enter -0-				10	
11	Tax (see instructions). Attach Schedule 2 if required				11	



Definitions (continued)

- Itemized Deductions
 - Allowable deductions (if you itemize) include:
 - Charitable contributions (cash, in kind, mileage)
 - Home mortgage interest
 - Medical expenses ($>7.5\%$ AGI), casualty expenses ($> 10\%$ AGI for a federally declared disaster only),
 - Either state and local taxes or state and local general sales taxes, property taxes on principle residence, etc. up to \$10,000



Definitions (continued)

- Mileage deduction vary depending on usage:
 - Charitable mileage deductions
 - 2018 .140 per mile
 - 2019 .140 per mile
 - 2020 .140 per mile
 - Business mileage deductions
 - 2018 .545 per mile
 - 2019 .580 per mile
 - 2020 .575 per mile
 - Medical/moving mileage expense deductions
 - 2018 .180 per mile
 - 2019 .200 per mile
 - 2020 .170 per mile



Definitions (continued)

- 4. Calculate Tax Liability (use tax tables--married filing jointly [Schedule Y-1])

Year	If Taxable income is over	But not over	Tax is	Plus this percentage	Of the Excess
2018	\$0	\$19,050	0	10%	0
	19,050	77,400	1,905	12%	19,050
	77,400	165,000	10,313	22%	77,400
	165,000	315,000	29,388	24%	165,000
2019	\$0	\$19,400	\$0	10%	\$0
	19,400	78,950	1,940	12%	19,400
	78,950	168,400	9,086	22%	78,950
	168,400	321,450	28,765	24%	168,400
2020	\$0	\$19,750	0	10%	0
	19,750	80,250	1,975	12%	19,750
	80,250	171,050	9,235	22%	80,250
	\$ 171,050	321,450	29,211	24%	171,050



Definitions (continued)

- 5. Subtract Tax Credits
 - Credits are dollar for dollar reductions in your taxable liability. Credits are worth significantly more than deductions.
 - Credits are either refundable (paid to the taxpayer even if the amount of the credits exceeds the tax liability) or non-refundable
 - Refundable credits include reductions for earned income, taxes withheld on wages, estimated income tax payments
 - Non-refundable credits include child tax (\$2,000 per child), child and dependent care, elderly and disabled, adoption, hope and lifetime learning




Definitions (continued)

- Tax Credits for Students (income limits apply)
 - *American Opportunity Tax Credit (R)*. Temporary credit, which provides up to \$2,500, 100% of the first \$2,000 and 25% of the next \$2,000 (40% refundable)
 - *Lifetime Learning Credit*. You can get up to \$2,000, 20% of the first \$10,000 of expenses, even if you are part-time
 - *Earned Income Tax Credit*. This is available to low-income individuals (age 24 and over)
 - *Child Tax Credit*. You can get \$2,000 per child under age 18, with \$1,400 refundable.
 - *Child and Dependent Care Expense Credit*. You can get a credit of 20-35% of \$3,000 care expense paid on one qualifying person or \$6,000 on two qualifying persons (two children maximum. There is no upper income limit on the 20%, and the credit is non-refundable.



Definitions (continued)

- Tax Credits for Non-students (income limits apply)
 - *Retirement Savings Contribution Credits*. Up to 10-50% of your retirement plan contributions (for AGI income below \$65,000 MFJ in 2020).
 - *Residential Energy Credit*. Credit on amounts paid for qualified energy efficiency improvements.
 - *Foreign tax Credit*. Credit of the tax you paid to a foreign country (on your international mutual fund investments).

	8	Enter the standard deduction; otherwise, attach Schedule A	8	
	9	Qualified business income deduction (see instructions)	9	
	10	Taxable income. Subtract lines 8 and 9 from line 7. If zero or less, enter -0-	10	
	11	Tax (see instructions). Attach Schedule 2 if required	11	
	12	If your only nonrefundable credit is the child tax credit and/or credit for other dependents, enter the total here; otherwise, attach Schedule 3	12	



IRS Form 1040A - Taxable Income, Tax withheld and Amount Owed

Form 1040 (2018) Page **2**

1	Wages, salaries, tips, etc. Attach Form W-2		1	
2a	Tax-exempt interest	2a	b	Taxable interest
3a	Qualified dividends	3a	b	Ordinary dividends
4a	IRAs, pensions, and annuities	4a	b	Taxable amount
5a	Social security benefits	5a	b	Taxable amount
6	Additional income and adjustments to income. Attach Schedule 1			6
7	Adjusted gross income. Combine lines 1 through 6			7
8	Enter the standard deduction; otherwise, attach Schedule A			8
9	Qualified business income deduction (see instructions)			9
10	Taxable income. Subtract lines 8 and 9 from line 7. If zero or less, enter -0-			10
11	Tax (see instructions). Attach Schedule 2 if required			11
12	If your only nonrefundable credit is the child tax credit and/or credit for other dependents, enter the total here; otherwise, attach Schedule 3			12
13	Subtract line 12 from line 11			13
14	Other taxes. Attach Schedule 4			14
15	Total tax. Add lines 13 and 14			15
16	Federal income tax withheld from Forms W-2 and 1099			16
17	Refundable credits: a EIC (see inst.) b Sch 8812 c Form 8863 d Other payments or refundable credits from Schedule 5			
18	Add lines 16 and 17 a through d . These are your total payments			18
19	If line 18 is more than line 15, subtract line 15 from line 18. This is the amount you overpaid			19
20a	Amount of line 19 you want refunded to you. If Form 8888 is attached, check here <input type="checkbox"/>			20a
b	Routing number c Type: <input type="checkbox"/> Checking <input type="checkbox"/> Savings			
d	Account number			
21	Amount of line 19 you want applied to your 2019 estimated tax			21
22	Amount you owe. Subtract line 18 from line 15. For details on how to pay, see instructions			22
23	Estimated tax penalty (see instructions)			23

Standard Deduction for—
 • Single or married filing separately. \$12,000
 • Married filing jointly or Qualifying widow(er). \$18,000
 • If you checked any box under Standard deduction, see instructions.

Direct deposit? ☐ See instructions.



Definitions (continued)

- 6. Minus Taxes already Paid = Balance Due or Amount of Refund

Form 1040 (2018) Page **2**

Attach Form(s) W-2. Also attach Form(s) W-2G and 1099-R if tax was withheld.

1	Wages, salaries, tips, etc. Attach Form(s) W-2	1	
2a	Tax-exempt interest	2a	
3a	Qualified dividends	3a	
4a	IRAs, pensions, and annuities	4a	
5a	Social security benefits	5a	
6	Total income. Add lines 1 through 5. Add any amount from Schedule 1, line 22	6	
7	Adjusted gross income. If you have no adjustments to income, enter the amount from line 6; otherwise, subtract Schedule 1, line 36, from line 6	7	
8	Standard deduction or itemized deductions (from Schedule A)	8	
9	Qualified business income deduction (see instructions)	9	
10	Taxable income. Subtract lines 8 and 9 from line 7. If zero or less, enter -0-	10	
11	a Tax (see inst.) (check if any from: 1 <input type="checkbox"/> Form(s) 8814 2 <input type="checkbox"/> Form 4972 3 <input type="checkbox"/>) b Add any amount from Schedule 2 and check here	11	
12	a Child tax credit/credit for other dependents b Add any amount from Schedule 3 and check here	12	
13	Subtract line 12 from line 11. If zero or less, enter -0-	13	
14	Other taxes. Attach Schedule 4	14	
15	Total tax. Add lines 13 and 14	15	
16	Federal income tax withheld from Forms W-2 and 1099	16	
17	Refundable credits: a EIC (see inst.) b Sch 8812 c Form 8863 Add any amount from Schedule 5	17	
18	Add lines 16 and 17. These are your total payments	18	
19	If line 18 is more than line 15, subtract line 15 from line 18. This is the amount you overpaid	19	
20a	Amount of line 19 you want refunded to you. If Form 8888 is attached, check here	20a	
20b	Routing number	20b	
20c	Account number	20c	
20d	e Type: <input type="checkbox"/> Checking <input checked="" type="checkbox"/> Savings	20d	
21	Amount of line 19 you want applied to your 2019 estimated tax	21	
22	Amount you owe. Subtract line 18 from line 15. For details on how to pay, see instructions	22	
23	Estimated tax penalty (see instructions)	23	

Go to www.irs.gov/Form1040 for instructions and the latest information.

Form **1040** (2018)

- Any questions with the Federal Tax process?



C. Understand the Major Tax Features and Strategies to Reduce Taxes

- Four types of taxes:
 - 1. Income taxes
 - 2. Capital Gains taxes
 - 3. Income based taxes
 - 4. Non-income based taxes



1. Income Taxes

- Income taxes
 - Progressive tax meaning that the more you earn the more you pay
 - Marginal tax rate
 - Percentage of the last dollar that you earned that will go toward federal income taxes
 - Average tax rate
 - Average amount of every dollar you earned that was paid for federal income taxes
 - Effective marginal tax rate
 - Average amount of every dollar you earned that paid for all local, state, and federal income taxes



2. Capital Gains Taxes

- Capital gains taxes
 - Can be postponed until you sell an asset for a profit, but rates are dependent on how long the asset is held as well as the marginal tax bracket of the owner
 - While you can postpone capital gains taxes, you cannot postpone taxes on distributed earnings and dividends from mutual funds
 - Short-term capital gains
 - Gains from assets held less than 366 days
 - Long-term capital gains – taxed at a preferential rate
 - Gains from assets held more than 366 days



Capital Gains (continued)

- Capital gains taxes do not perfectly match up with the tax brackets; rather, they are applied to maximum taxable income levels (000's). Medicare taxes also change with income.

2020 Tax Brackets, Capital Gains, Dividends, and Medicare Tax Rates (000s)

Taxable Inc. Filing Single^	Married Filing Jointly^	Head of Household^	Ordinary Income	Cap. Gains & Dividends Tax Rate	Medicare Tax Rate Earned Income*	Net Invest. Inc. Tax	Total Cap Gains & Medicare
-	-	-	10%	0%			
9,876	19,751	14,101	12%	0%	2.9%	0.0%	2.9%
40,126	80,251	53,701	22%	0%	2.9%	0.0%	2.9%
40,001	80,001	53,601		15%	2.9%	0.0%	17.9%
85,526	171,051	85,501	24%	15%	2.9%	0.0%	17.9%
163,301	326,601	163,301	32%	15%	2.9%	3.8%	21.7%
207,350	414,701	207,351	35%	15%	2.9%	3.8%	21.7%
441,451	496,601	469,051		20%	3.8%	3.8%	27.6%
518,401	622,051	518,401	37%	20%	3.8%	3.8%	27.6%

^ The beginning of the tax bracket. * Combined rate = 1.45% employer contribution.

Net Investment Income Tax is calculated on your MAGI and Investment Income being above the Threshold. MAGI is AGI + foreign income + a few other areas. Your tax is on the excess above that threshold amount.



Capital Gains (continued)

Investing Insights:

- Avoid frequent trading. Selling causes taxes
- Buy for the long-term and keep costs low
- Buy low-turnover, “tax managed” index/mutual funds

Home Ownership Insights:

- Gains up to \$500,000 for couples and \$250,000 for individuals from home ownership is exempt from taxes
 - Home must be your principal residence and lived there 2 of the last 5 years. No need to “rollover gain” as before the Taxpayer Relief Act of 1997



3. Income-based Taxes

- Social Security or FICA
 - A mandatory insurance program administered by the federal government that provides support in the event of death, disability, health problems, or retirement.
 - Tax rate of 6.20% of gross salary
 - Capped and adjusted annually for inflation over which income is not taxed.
- Medicare
 - A health care insurance program for elderly and disabled.
 - Tax rate of 1.45% of gross salary, with no annual cap.



Income-based Taxes (continued)

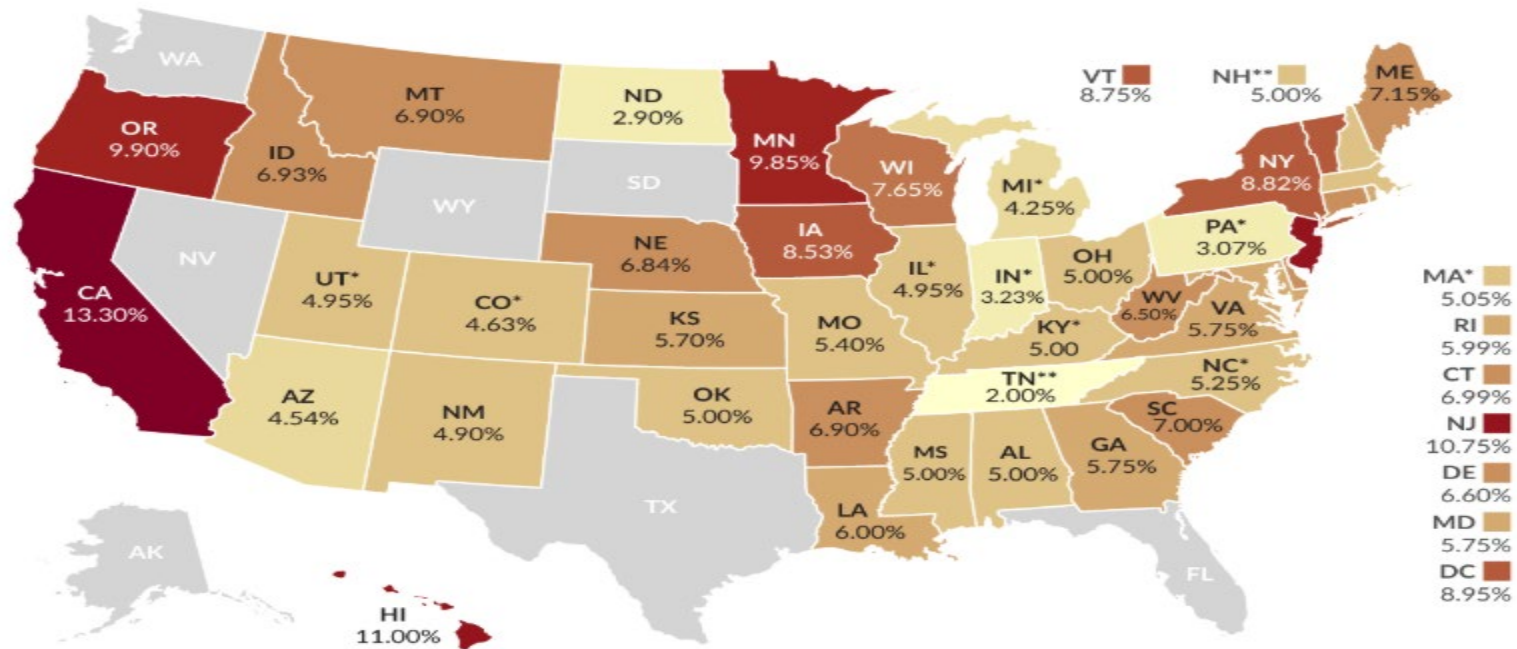
- Total FICA tax rate is 15.3% (12.4% Social Security + 2.9% Medicare).
 - You are only responsible for half of the tax (7.65%) unless you're self-employed. Then you must pay all 15.3%
- State and Local Income Taxes
 - Most states impose an income tax; however, some, like Texas and Nevada do not (see next slide)
 - Alaska actually pays you to live in that state
 - Local income taxes are uncommon; but some larger cities, for example, New York City, impose such a tax



Income-based Taxes (continued)

- State Tax Rates (2019)

Top State Marginal Individual Income Tax Rates, 2019



Note: (*) State has a flat income tax. (**) State only taxes interest and dividends income. Map shows top marginal rates: the maximum statutory rate in each state. This map does not show effective marginal tax rates, which would include the effects of phase-outs of various tax preferences. Local income taxes are not included.

Source: Tax Foundation; state tax statutes, forms, and instructions; Bloomberg BNA.





4. Non-Income based Taxes

- Excise “sin taxes” and state sales taxes
 - Imposed when goods are purchased
- Real estate and property taxes
 - Imposed annually or semi-annually on assets owned
- Gift and estate taxes
 - Imposed when assets are transferred from one owner to another



Tax Planning Strategies (continued)

Four key strategies to reduce your taxes (legally):

1. Maximize Deductions

- Key Suggestions
 - Use your home as a tax shelter
 - Shift and bunch your deductions to get maximum benefit in a specific year
 - Continue to give, with tithes and offerings
 - Keep good records of health, charitable and moving expenses, including mileage and in-kind donations



Tax Planning Strategies (continued)

2. Minimize Taxes Owed

- Key Suggestions
 - Maximize long-term capital gains
 - Taxes are not paid until the assets are sold
 - Long-term capital gains rates are taxed less than earned income (up to 35% versus 15%).
 - Emphasize stock dividends over bond interest
 - Stock dividends have a 15% preferential tax rate
 - Utilize a buy and hold strategy on financial assets
 - You pay no taxes until you sell
 - Manage your portfolio in a tax-efficient basis.



Tax Planning Strategies (continued)

3. Earn Tax-Exempt Income

- Key Suggestions
 - Look to tax-free investments
 - Municipal bond interest is federal-tax free, and may be state and local tax-free as well
 - Treasury securities are state tax-free
 - Use Medical Savings Accounts (also called flexible spending accounts) to pay medical bills with before-tax dollars and to reduce income
 - Donate to charities with appreciated assets. That way you do not pay capital gains taxes on the appreciated assets



Tax Planning Strategies (continued)

4. Defer taxes to the future or eliminate future taxes

- Key Suggestions
 - Defer taxes to the future by investing in 401k/403b/457 and other tax-deferred qualified retirement plans, especially if they are matched
 - Eliminate future taxes by investing in Roth retirement vehicles (Roth IRA, Roth 401k, etc.)
 - Prepare for future education expenses and eliminate future taxes by investing in education savings vehicles (i.e., 529 Plans and Education IRAs) which eliminate future taxes on earnings if the assets are used for qualified educational expenses (exclusions)



Tax Recommendations for Soon to be Graduating Students

- 1. Be organized with your record keeping
 - Have a folder that you put all your tax receipts into for tax time—keep it current
 - Use an electronic system such as Quicken or Mint.com to organize your finances
 - These programs make taxes easier if you use them as they help you remember when and where you made tax-deductible contributions



Tax Recommendations for Students (continued)

- 2. Keep prior year's return
 - Use prior year's returns as examples for your current year's return
 - Make sure you take the same deductions each year—or at least be aware of them
 - Keep prior year's returns for 7 years, including returns and backup for key deductions and credits



Tax Recommendations for Students (continued)

- 3. Keep good records for itemizing deductions
 - Keep good records so you can itemize deductions, including charity, insurance, and other key areas
 - Get good at showing what non-cash charitable contributions you make, such as miles you travel for church or scout related activities. These can be deducted at 14 cents per mile in 2020
 - Keep records of the non-cash donations you give to Deseret Industries, Salvation Army, etc. as these can be deducted if you itemize



Tax Recommendations for Students (continued)

- 4. Spend time in December estimating capital gains, and offset them, if possible, with capital losses
 - Offset capital gains with capital losses to manage your investment income
 - If one of your index/mutual funds has a loss, sell it to get the loss and buy another index fund that follows the same asset class
 - You can deduct up to \$3,000 per year in capital losses (every little bit helps) in 2020



Tax Recommendations for Students (continued)

- 5. Pay your tithes and offerings with appreciated long-term capital assets (if you have them).
 - If you donate appreciated assets instead of selling them, you do not have to pay the capital gains on those assets
 - Donate the appreciated assets directly to the charities of your choice
 - For an example of paying tithing and other offerings with appreciated assets, see [Tithing Share Transfer Example](#) (LT08)

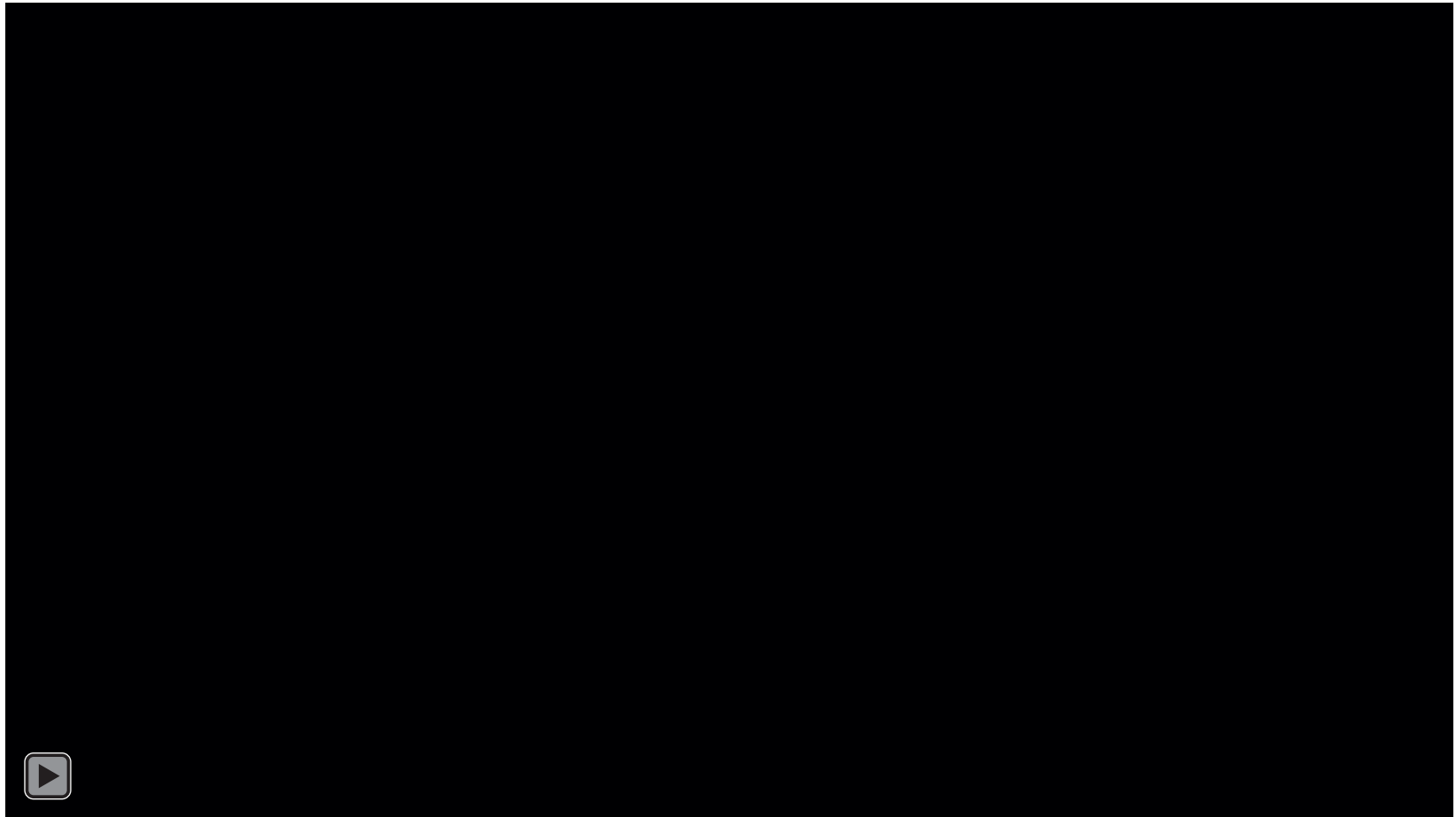


Questions

- Any questions on taxes and tax strategies to reduce your tax bill?



D. Understand and Create Your Tax Plan



Following are ideas as you put your Tax Plan together



Your Tax Plan (continued)

- Vision
 - This will likely be from your Plan for Life
 - Other ideas include:
 - Pay every penny we owe and not a penny more
- Goals
 - Show by my actions that I have integrity
 - Be honest in all my dealings, including with the government
 - Use taxes strategically in developing retirement plans
 - Maximize all after-tax cash flows
 - Pay all bills when due



Your Tax Plan (continued)

- Plans and Strategies

Before Retirement

- Keep good records for tax and other purposes
- Every 3rd year get help preparing your taxes to ensure you are minimizing your tax payments
- Pay tithes and offerings with appreciated securities
- Use appreciated securities as a strategy to rebalance your portfolio without tax implications
- Be balanced in your investment portfolio with taxable, tax-deferred and tax eliminated accounts
- Be tax-efficient in your investment strategy
- Do tax harvesting in December to reduce gains



Your Tax Plan (continued)

- Plans and Strategies

At and During Retirement

- Every 3rd year get help preparing your taxes
- Pay tithes/offerings with appreciated securities from tax-deferred accounts—considered part of your required minimum distributions (RMDs)
- Use appreciated securities as a strategy to rebalance your investment portfolio
- While on your mission, change tax-deferred retirement accounts (401k, 403b) into Roth accounts (Roth IRA, Roth 401K)
- Target your retirement tax rate with taxable, tax-deferred and tax eliminated accounts



Your Tax Plan (continued)

- Constraints
 - Laziness will keep you from good record keeping
 - Not living on a budget will make it difficult to save
 - Getting caught up in the things of the world will make it difficult to save
- Accountability
 - These will likely be the same as your Plan for Life



Your Tax Plan (continued)

- Any questions on how to complete your Tax Plan?



Review of Objectives

- A. Do you understand what our leaders have said regarding taxes?
- B. Do you understand the importance of tax planning and how it helps attain your personal goals?
- C. Do you understand the major tax features of our tax system and strategies to help lower your taxes?
- D. Can you create your Tax Plan?



Case Study #1

Data: Matt and Janina, ages 42 and 40, are married and filling out their taxes. They have 4 children, 3 under 17 and one a dependent in college. They contributed \$5,000 to a traditional 401k in 2020, \$2,500 to a flexible spending plan, and state and local taxes were \$11,000. They can only deduct medical bills above 7.5% of AGI and state taxes \leq \$10,000. The standard deduction for married filing jointly is \$24,800, and the child tax credit is \$2,000 per child under 18. Tax rates for 2020 for married filing jointly are:

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- Un-reimbursed medical bills 9,063
- Tithes and offerings 9,600
- Calculations: Using the married filing jointly status and the information above, calculate their 2020 taxes first using the standard deduction and then using itemized deductions. Calculate their marginal tax rate and average tax rate on gross income.
- Recommendations: Which way should they calculate their taxes? What could they do to reduce their taxes?



- They have 4 children, 3 16 and under and one a dependent in college. They contributed \$5,000 to a traditional 401k, and \$2,500 to a flexible spending plan. They can only deduct medical bills above 7.5% of AGI. Exemptions are \$0 per person, the standard deduction for married filing jointly is \$24,800, and the child tax credit is \$2,000 per child 16 and under, and \$500 per older dependent child. They paid \$6,000 in state taxes and \$4,500 in property taxes.

Calculations: Standard Deduction Method

- 1. Income from all Sources \$90,000
- Less 401k exclusion -5,000
- = Gross Income 85,000
- 2. Less Flexible Spending -2,500
- = Adjusted Gross Income (AGI) 82,500
- 3. Minus Standard Deduction -24,800
 - Equals Taxable income 57,700
- 4. Look up tax in tax table:
 - Tax: 1,975 10% on first \$19,750
 - 4,554 12% on remainder
 - Tentative tax \$6,529
- 5. Child tax credit -6,500 (3 * \$2,000) + \$500 family credit)
- 6. Total Tax Due \$29

To help you with understanding taxes, we have prepared a [Federal Tax Liability Worksheet \(LT39\)](#). It may be helpful for the Standard Deduction

Federal Tax Liability Worksheet (LT39)				Use Drop Down Box	
Clear Inputs		Sudweeks January 22, 2020		Year & Status: 2020 Married Filing Jointly	
Note: Using 2020 Tax Rates for Married Filing Jointly					
Step 1: Determine Total Income				Amounts	
Includes:					
Wages, salaries, tips			80,000		
Investment/interest income/bonus			10,000		
Education income in excess of expenses					
Excludes:					
Qualified retirement contributions (401k, 403b, not Roth's)			5,000		
Interest on US Savings bonds					
Total Gross Income					85,000
Step 2: Calculate Adjusted Gross Income					
Excludes:					
Tuition & Fees and Student Loan interest Deduction**					
IRA/SEP contributions (not Roth IRA)					
Medical Savings Account contributions			2,500		
Flexible Spending Account contributions					
Total Adjusted Gross Income					82,500
Step 3: Calculate Taxable Income					
Standard or Itemized Deductions (use dropdown box)			Standard		
Standard deduction				24,800	24,800
Itemized deductions					
Charitable contributions (including tithes and offerings)				9,600	
State and Local Taxes (SALT \$10,000 max.)		11,000		10,000	
Home mortgage interest					
Other taxes					
Charitable Mileage			0.14	-	
Job Related - Not Deductible in 2018			-		
Medical expenses > 7.5% of AGI	9,063		6,188	2,876	
Total itemized deductions				22,476	
Total Taxable Income					57,700
Step 4: Determine Total Tax Liability for 2020 for Married Filing Jointly					
	10%	-	19,750	1,975	
	12%	19,750	80,250	4,554	
	22%	80,250	171,050	-	
	24%	171,050	326,600	-	
	32%	326,600	414,700	-	
	35%	414,700	622,050	-	
Total Tax Liability					6,529
Step 5: Determine Tax Liability After Credits					
			Maximum	Total Credits:	Refundable:
Family Credits (non-refundable)*	1	500	500		
Lifetime Learning Credit (non-refund.)			-		
Child Tax Credit (<17, partial. refund.)*	3	2,000	6,000		4,200
American Opport. Credit (Partial)*			-		-
American Opport. Credit (Partial)*			-		-
Total Tax Credits / Total Refundable			6,500		4,200
Tax Liability after Credits					29
Step 6. Calculate Taxes Due or (Refund)					
Amount Withheld (withholdings - including refundable credits)					
Taxes Due or (Refund)					29
Marginal Tax Rate:					12.00%
Average Tax Rate on Gross Income					0.03%



They have 4 children, 3 16 and under and one a dependent in college. They contributed \$5,000 to a traditional 401k, and \$2,500 to a flexible spending plan. They can only deduct medical bills above 7.5% of AGI. Exemptions are \$0 per person, the standard deduction for married filing jointly is \$24,800, and the child tax credit is \$2,000 per child 16 and under, and \$500 per older dependent child. They paid \$6,000 in state taxes and \$4,500 in property taxes.

Calculations: Itemized Deduction Method

- 1. Gross Income (Earned + Interest – 401k exclusion) \$85,000
- less Flexible Spending (adjustments) -2,500
- 2. Adjusted Gross Income 82,500
- 3. Deductions
 - Home Mortgage Interest 6,800
 - Medical Expenses 2,876 (\$9,063-(82,500*.075))
 - State and local taxes 10,000 (\$10,000 max)
 - Tithing 9,600
 - Total Deductions 29,276
 - Equals Taxable income 53,225
- 4. Look up Tax in Table 1,975 10% on first \$19,750
- \$55,287-19,750 *.12 4,017 12% on remainder
- Calculated tentative tax \$5.992
- 5. Child tax credit -6,500 (2,000 * 3, \$500 * 1)
- 6. Total Taxes (Refund) -\$508
 - Since \$1,400 per child is refundable, he will get a refund of the \$508.

To help you with understanding taxes, we have prepared a [Federal Tax Liability Worksheet \(LT39\)](#). It may be helpful for your Itemized Deductions

Federal Tax Liability Worksheet (LT39)				Use Drop Down Box
Clear Inputs		Sudweeks January 22, 2020		Year & Status: 2020 Married Filing Jointly
Note: Using 2020 Tax Rates for Married Filing Jointly				
Step 1: Determine Total Income				Amounts
Includes:				
Wages, salaries, tips		80,000		
Investment/interest income/bonus		10,000		
Education income in excess of expenses				
Excludes:				
Qualified retirement contributions (401k, 403b, not Roth's)		5,000		
Interest on US Savings bonds				
Total Gross Income				85,000
Step 2: Calculate Adjusted Gross Income				
Excludes:				
Tuition & Fees and Student Loan interest Deduction**				
IRA/SEP contributions (not Roth IRA)				
Medical Savings Account contributions				
Flexible Spending Account contributions		2,500		
Total Adjusted Gross Income				82,500
Step 3: Calculate Taxable Income				
Standard or Itemized Deductions (use dropdown box)		Itemized		
Standard deduction		24,800		29,276
Itemized deductions				
Charitable contributions (including tithes and offerings)			9,600	
State and Local Taxes (SALT \$10,000 max.)		11,000	10,000	
Home mortgage interest			6,800	
Other taxes				
Charitable Mileage		0.14	-	
Job Related - Not Deductible in 2018		-		
Medical expenses > 7.5% of AGI	9,063	6,188	2,876	
Total itemized deductions			29,276	
Total Taxable Income				53,225
Step 4: Determine Total Tax Liability for 2020 for Married Filing Jointly				
10%	-	19,750	1,975	
12%	19,750	80,250	4,017	
22%	80,250	171,050	-	
24%	171,050	326,600	-	
32%	326,600	414,700	-	
35%	414,700	622,050	-	
Total Tax Liability				5,992
Step 5: Determine Tax Liability After Credits				
		Maximum	Total Credits:	Refundable:
Family Credits (non-refundable)*	1	500	500	
Lifetime Learning Credit (non-refund.)			-	
Child Tax Credit (<17, partial. refund.)*	3	2,000	6,000	4,200
American Opport. Credit (Partial)*			-	-
American Opport. Credit (Partial)*			-	-
Total Tax Credits / Total Refundable			6,500	4,200
Tax Liability after Credits				(508)
Step 6. Calculate Taxes Due or (Refund)				
Amount Withheld (withholdings - including refundable credits)				541
Taxes Due or (Refund)				(508)
Marginal Tax Rate:				12.00%
Average Tax Rate on Gross Income				0.00%



They have 4 children, 3 16 and under and one a dependent in college. They contributed \$5,000 to a traditional 401k, and \$2,500 to a flexible spending plan. They can only deduct medical bills above 7.5% of AGI. Exemptions are \$0 per person, the standard deduction for married filing jointly is \$24,800, and the child tax credit is \$2,000 per child 16 and under, and \$500 per older dependent child. They paid \$6,000 in state taxes and \$4,500 in property taxes.

- Calculations: Calculate their marginal and average tax rate on gross income.
 - Their marginal tax rate, the tax rate they would pay on each new dollar of income is 12% for both the standard and itemized deduction calculation
 - Their average tax rate, the rate they actually pay in taxes is their taxes divided by their gross income.
 - Standard deduction = $\$29/\$85,000 = 0.03\%$
 - Itemized deduction = $\$0/\$85,000 = 0\%$
- As a check, [Federal Tax Worksheet](#) (LT39) may be helpful.



Case Study (continued)

- Recommendations
 - Insights:
 - Using the Itemized (\$-508) versus the standard deduction (\$29) nets a savings of \$537 over the standard deduction. Matt and Janina should use the itemized method as they have more money for their goals
 - Recommendations:
 - There are lots of different answers you could give to reduce their taxes; however, you do not have specific data in the case that leads to any specific recommendation. Following are a few assumptions and ideas:



Case Study (continued)

- 1. Maximize Deductions
 - They should keep records of their home interest payments, state and local taxes (up to \$10,000) and property taxes which are deductible.
Property taxes were not in the case
 - If they are involved in charity, they could deduct the miles they drive to and from the charity
 - If they have non-cash contributions such as donations to Deseret Industries or Goodwill, they could keep good records of these donations
 - If they have appreciated financial assets they could contribute these to charity instead of cash, reducing taxes paid, increasing deductions and eliminating capital gains taxes
 - They could keep having kids



Case Study (continued)

- 2. Minimize Taxes Owed
 - If they have investments, they could use a passive strategy and purchase low-turnover mutual funds to minimize their mutual fund distributions (and taxes), increase long-term capital gains (rate depends on their marginal tax rate)
 - If they invest in stocks or stock mutual funds, stock dividends are taxed at a preferential rate versus bond interest at their marginal tax rate



Case Study (continued)

- 3. Receive tax-exempt income
 - If their work has a flexible spending plan (FSP), they could contribute to their FSP to pay medical bills with pre-tax dollars and reduce their AGI. In this case, they should have a larger FSP
 - If they have investments, they could invest in municipal bonds which are federal tax-free for interest, or Treasury securities which are state tax-free



Case Study (continued)

- 4. Defer taxes to the future or eliminate future taxes altogether
 - If they have qualified plans at work, they could contribute to a 401k/403b/457 plan. This plan would reduce their AGI and may have a match
 - They have kids so they could contribute to 529 and Education IRA plans which would have no tax advantages now (unless its Utah's 529 plan) but eliminate future taxes on their earnings
 - If available, they could use a Roth 401k or Roth 403b, which may have a match, and never pay taxes on these earnings again



Case Study #2

Data

- Your friend Brian, a financial analyst, comes to you with this sure-fire method of reducing taxes. He says that if you buy into this product (this product can be many different types of tax-schemes), you will not have to pay taxes on the earnings and it will save you taxes as well. It doesn't sound right, so Brian comes and asks:

Application

- To what lengths should you go to avoid taxes?
- Where should your best tax advice come from?



Case Study #2 Answer

- Any legal method. However, if it seems too good to be true, it probably is, so get another opinion. It's not worth losing your integrity or going to prison over bad tax advice
 - You are ultimately responsible for your choices and for paying taxes. Where you get your tax advice, and how and what you pay for your taxes and other obligations is your choice
- Your best tax advice should come from those who make it a business of giving tax advice. In addition, the IRS has many publications which can help you as you determine the taxes you should pay



Case Study #3

From the Fundamentals of Family Finance Workbook,
Hill & Israelson, 2017, #5.1 updated for 2020

- David and Jenny have four children: Aaron (20), Brittany (18), Camden (16), and Dannie (14). David earned \$110,000, and a \$10,000 bonus, and had \$12,000 withheld for federal income taxes, \$6,000 for Utah State income taxes, and \$9,180 for payroll taxes. They earned \$100 interest. They saved \$12,000 in a Roth 401k and \$5,000 in a traditional IRA. They \$13,000 in tithes and offerings, \$6,000 in Utah state taxes, \$4,500 in property taxes, and \$4,200 in qualified home mortgage interest. They paid \$4,000 in unreimbursed medical costs when Dannie broke her arm. Aaron is a missionary in Peru, and they contributed \$400 each month to the Church. Brittany just completed a semester at BYU Idaho, with expenses of \$4,700 (\$2,000 tuition, \$300 books, and \$1,600 housing and \$800 food). (Sorry but a mission does not count for a family credit)
 - Based on the facts below, help the Petersons determine if they should itemize or use the standard deduction? Will they have to pay more taxes or will they get a refund? How much?



Case Study #3 Answers

Calculations: Standard Deduction Method

- 1. Gross Income \$120,100
- 2. Less IRA contribution -5,000
- = Adjusted Gross Income (AGI) 115,100
- 3. Minus Standard Deduction -24,800
- Equals Taxable income 90,300
- 4. Look up tax in tax table:
 - Tax: 1,975 10% on first \$19,750
 - 7,260 12% on the next bracket
 - 2,211 22% on remainder
 - Tentative tax \$11,446
- 5. Child tax credit -4,500 (2 * \$2,000) + \$500 family credit
- AO Credit -2,075 (100% of \$2k + 25% up to \$4k)
- 6. Total Tax Due \$4,871
- Taxes Paid 12,000
- Refund -\$7,129

Dave and Jenny have 4 children, 2 under 16, one on a mission, and one at BYU Idaho. He earned \$110K, with a \$10k bonus. \$12k was withheld for Federal taxes and \$6k for state taxes. They put \$5k in an IRA, \$13K in tithes and offerings, \$400*12 for missionary expenses, \$4.5k for property taxes, had \$4k in medical expenses, and the college student paid \$2,3k for tuition and books.

- What is their taxes/refund using the standard deduction?

Federal Tax Liability Worksheet (LT39)				Use Drop Down Box	
Clear Inputs		Sudweeks January 21, 2020		Year & Status: 2020 Married Filing Jointly	
Note: Using 2020 Tax Rates for Married Filing Jointly					
Step 1: Determine Total Income				Amounts	
Includes:					
Wages, salaries, tips		110,000			
Investment/interest income/bonus		10,100			
Education income in excess of expenses					
Excludes:					
Qualified retirement contributions (401k, 403b, not Roth's)					
Interest on US Savings bonds					
Total Gross Income				120,100	
Step 2: Calculate Adjusted Gross Income					
Excludes:					
Tuition & Fees and Student Loan interest Deduction**					
IRA/SEP contributions (not Roth IRA)		5,000			
Medical Savings Account contributions					
Flexible Spending Account contributions					
Total Adjusted Gross Income				115,100	
Step 3: Calculate Taxable Income					
Standard or Itemized Deductions (use dropdown box)				Standard	
Standard deduction		24,800		24,800	
Itemized deductions					
Charitable contributions (including tithes and offerings)		13,000			
State and Local Taxes (SALT \$10,000 max.)		10,500		10,000	
Home mortgage interest				4,200	
Other taxes					
Charitable Mileage		0.14		-	
Job Related - Not Deductible in 2018		-			
Medical expenses > 10.0% of AGI	4,000	11,510		-	
Total itemized deductions				27,200	
Total Taxable Income				90,300	
Step 4: Determine Total Tax Liability for 2020 for Married Filing Jointly					
10%	-	19,750		1,975	
12%	19,750	80,250		7,260	
22%	80,250	171,050		2,211	
24%	171,050	326,600		-	
32%	326,600	414,700		-	
35%	414,700	622,050		-	
Total Tax Liability					11,446
Step 5: Determine Tax Liability After Credits					
Family Credits (non-refundable)*	1	500		500	
Lifetime Learning Credit (non-refund.)				-	
Child Tax Credit (<17, partial. refund.)*	2	2,000		4,000	2,800
American Opport. Credit (Partial)*	2,300	4,000		2,075	830
American Opport. Credit (Partial)*				-	-
Total Tax Credits / Total Refundable				6,575	3,630
Tax Liability after Credits					4,871
Step 6: Calculate Taxes Due or (Refund)					
Amount Withheld (withholdings - including refundable credits)				12,000	
Taxes Due or (Refund)				(7,129)	
Marginal Tax Rate:				22.00%	
Average Tax Rate on Gross Income				4.06%	



Case Study #3 Answers

Calculations: Itemized Deduction Method

- 1. Gross Income \$120,100
- 2. Less IRA contribution -5,000
- = Adjusted Gross Income (AGI) 115,100
- 3. Deductions
 - Home Mortgage Interest 4,200
 - Medical Expenses 0 ($\$4,000 - (115,100 \times .075)$)
 - State and local taxes 10,000 ($\$10,000$ max)
 - Tithing 17,800 ($13,000 + \$400 \times 12$)
 - Total Deductions \$32,000
 - Equals Taxable income 83,100
- 5. Look up Tax in Table
 - 1,975 10% on first \$19,750
 - 7,260 12% on next bracket
 - 627 22% on remainder
- Calculated tentative tax \$9,862
- 6. Child tax credit -6,575 ($2,000 \times 2$, \$500, \$2,075)
- 7. Total Taxes Due \$3,287
- Amount withheld 12,000 so refund is \$8,713

Dave and Jenny have 4 children, 2 under 16, one on a mission, and one at BYU Idaho. He earned \$110K, with a \$10k bonus. \$12k was withheld for Federal taxes and \$6k for state taxes. They put \$5k in an IRA, \$13K in tithes and offerings, \$400*12 for missionary expenses, \$4.5k for property taxes, had \$4k in medical expenses, and the college student paid \$2,3k for tuition and books.

- What is their taxes/refund using itemized deductions?

Federal Tax Liability Worksheet (LT39)				Use Drop Down Box
Clear Inputs		Sudweeks January 21, 2020	Year & Status: 2020 Married Filing Jointly	
Note: Using 2020 Tax Rates for Married Filing Jointly				
Step 1: Determine Total Income				Amounts
Includes:				
Wages, salaries, tips			110,000	
Investment/interest income/bonus			10,100	
Education income in excess of expenses				
Excludes:				
Qualified retirement contributions (401k, 403b, not Roth's)				
Interest on US Savings bonds				
Total Gross Income				120,100
Step 2: Calculate Adjusted Gross Income				
Excludes:				
Tuition & Fees and Student Loan interest Deduction**			5,000	
IRA/SEP contributions (not Roth IRA)				
Medical Savings Account contributions				
Flexible Spending Account contributions				
Total Adjusted Gross Income				115,100
Step 3: Calculate Taxable Income				
Standard or Itemized Deductions (use dropdown box)		Itemized		
Standard deduction			24,800	32,000
Itemized deductions				
Charitable contributions (including tithes and offerings)			17,800	
State and Local Taxes (SALT \$10,000 max.)		10,500	10,000	
Home mortgage interest			4,200	
Other taxes				
Charitable Mileage		0.14	-	
Job Related - Not Deductible in 2018		-	-	
Medical expenses > 10.0% of AGI	4,000	11,510	-	
Total itemized deductions			32,000	
Total Taxable Income				83,100
Step 4: Determine Total Tax Liability for 2020 for Married Filing Jointly				
10%	-	19,750	1,975	
12%	19,750	80,250	7,260	
22%	80,250	171,050	627	
24%	171,050	326,600	-	
32%	326,600	414,700	-	
35%	414,700	622,050	-	
Total Tax Liability				9,862
Step 5: Determine Tax Liability After Credits				
		Maximum	Total Credits:	Refundable:
Family Credits (non-refundable)*	1	500	500	
Lifetime Learning Credit (non-refund.)			-	
Child Tax Credit (<17, partial. refund.)*	2	2,000	4,000	2,800
American Opport. Credit (Partial)*	2,300	4,000	2,075	830
American Opport. Credit (Partial)*			-	-
Total Tax Credits / Total Refundable			6,575	3,630
Tax Liability after Credits				3,287
Step 6. Calculate Taxes Due or (Refund)				
Amount Withheld (withholdings - including refundable credits)				12,000
Taxes Due or (Refund)				(8,713)
Marginal Tax Rate:				22.00%
Average Tax Rate on Gross Income				2.74%



Case Study #4 – (WP 7)

- Steve and Stella are a young married couple with a baby. Steve earned \$6,000 and Stella \$10,000. \$2,000 was withheld from their paychecks for federal income taxes, and they will take the standard deduction for MFJ. They learned about IRAs in Fin418, so they set up and contributed \$200 to a Roth IRA. They had tuition costs of \$10,400 and books of \$600, equally split. They received federal Pell grants worth \$6,000 in 2020 equally split. Calculate their:
 - AGI (Step 1)
 - Taxable Income (Step 2)
 - Tax Liability (Step 3)
 - Taxes Due/(Refund)* (Step 4)



Case Study #4 Answers

- Calculate their AGI:
 - Their AGI is composed of their gross income less any adjustments.
 - Their gross and adjusted gross income is:
 - \$16,000
- Calculate their Taxable Income:
 - Since they took the standard deduction (\$24,800) and only made \$16,000, their taxable income is:
 - 0
- Calculate their tax liability:
 - Since their taxable income is \$0, their tax liability is 0



Case Study #4 Answers

- Calculate their refund:
 - The child tax credit is \$2,000, of which \$1,400 is refundable
 - They have a Pell grant of \$6,000, equally split, and books and tuition also equally split
 - Their total education expenses for tuition and books was \$11,000, less the Pell grant of \$6,000, would result in tuition and book expenses, in excess of the Pell grant, of \$5,000 each
 - Since it was equally split and both going to school, we do two American Opportunity Credits using \$2,500 of expenses for each. This results in two credits of \$2,125 of which 40% (\$850) is refundable.
 - Their total credits were \$6,250, of which \$3,100 is refundable
 - Their total refund would be the \$3,100 of refundable credit, plus the \$2,000 they paid, for a total refund of \$5,100



Case Study #4 Answers

- From the Vita Lab:
 - They would recommend
 - Since the credits are more important and you have no taxable income
 - Take \$3,000 and put it in gross income. Your taxable income is still \$0
 - Recognizing the \$3,000 in income allows:
 - Put \$4,000 each in the AOC credit, which brings up your total refundable credit to \$3,400
 - Your refund is \$5,400, \$300 more than earlier
 - GET TO THE VITA LAB FOR HELP at www.vita.byu.edu and set up an appointment