



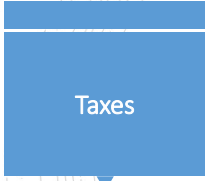
FRANK AND ERNEST
ASK MR. BUCK: FINANCIAL ADVISOR
"DEAR MR. BUCK, WHY DO SO MANY PEOPLE HAVE TROUBLES WITH THEIR FINANCES?"
"MONEY TALKS, BUT IT DOES NOT GIVE DIRECTIONS."

Financial Planning Series
"TAXE\$"
March 12th 2025

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1




Taxes

"In this world nothing can be said to be certain, except death and taxes."
Benjamin Franklin 1789

2

Learning Objectives

This workshop is intended to give you a basic understanding of how federal taxes are calculated as well as how every financial decision you make from choosing employee benefits, home purchases to marriage and investing impacts your taxes.




3

Today's talk does not constitute Tax Advice

Disclaimer

Today's talk reflects current Tax Rules as well as some comparisons to the rules prior to 2018 to reflect the tax law changes


I will be referring to the 2024 tax rates as well as 2025 rates. Over the next couple of months, you may be preparing to file your 2024 tax return.



4

Tax Math

- All Sources of Income
- +/- Adjustments
- = Adjusted Gross Income (AGI)
- Deductions (**standard** or **Itemized**)
- **Exemptions**
- = Taxable Income (look to the tax brackets)
- x Rates for each Tax Bracket
- = Tax





5

1040 Tax Return

Front Page

Tax Payer Information
All dependents
Filing Status


Wages
+ Interest & Dividends
+ IRA, Pension, Social Security
+ Capital Gains (Net)
+ Other Income
= Total Income

6

Unreimbursed Employee Expenses no longer deductible


- Professional Society Dues
- Union Dues
- License and Regulatory Fees
- Malpractice Premiums
- Subscriptions, Professional and Trade Journals
- Tools and Supplies and work clothes
- Work Related Education (CE)
- Conferences and Travel To & From



13

Job Search Expenses no longer deductible

- Everything related to looking for a new job in your same occupation
- School to Job – NO
- Job 'A' to Job 'B' - Yes

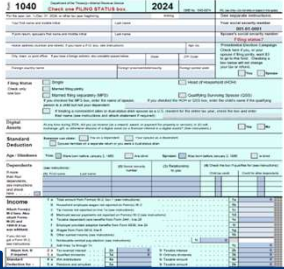



14

1040 Tax Return


How To Reduce Income to Reduce Taxes?

- Employer Health Insurance Premiums come out pre-tax
- Employer Retirement Plans Contribute Pre-Tax
- Flexible Spending Accounts Child Care & Medical
- Other employer pre-tax benefits





15


Employee Benefits




Health Insurance Premiums



Flexible Spending Accounts
For out of pocket medical or child care




Health Savings Accounts
Need to have High Deductible Health Insurance



16

Why use a Flexible Spending Account?

- For out of pocket **Health** costs or **Child Care**
- Reduces your income dollar for dollar
- Do not need to itemize to do so.
- \$3,300 for Healthcare (2025)
- \$5,000 for dependent care (2025)
- Need to have routine predictable expenses
- Use to be a use it or lose it condition
- Some let you carry over \$660 (2025) to the next year



17


Student Loan Interest Deduction 2024

Deduct up to \$2,500/year in student loan interest

Phased out when income rises
 \$80,000 - \$95,000 (single 2024)
 \$165,000 - \$195,000 (MFJ 2024)

No deduction for married filing separate

Receive a 1098-E from each loan servicer required to send if interest >= \$600



18

Employer Retirement Plans

- 401k, 403b, 457, TSP etc. (Traditional versions, not Roth)
- Contributions come out of your paycheck pre-tax
 - Each pay period based on your % elected
 - \$23,000/year maximum from your wages (2024)
 - \$23,500/year maximum from your wages (2025)
- Accounts grow tax-deferred
- Entire account is **taxed upon withdrawal** in retirement
- Some Employers contribute Matching Dollars
 - Check eligibility and Vesting Schedule
- Roth 401k, Roth 403b, Roth TSP are with **After Tax Dollars**



19

Roth IRA

- Individual retirement account that you set up
- Contribute dollars "After-Tax"
- Account grows Tax-Deferred
- Entire account is tax free in retirement
- Your contributions can be used at any time with no penalty or tax
- Contributions **subject to income limits**

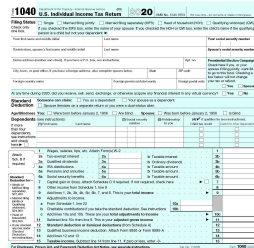
Single	\$146,000 - \$161,000 (2024)
Single	\$150,000 - \$165,000 (2025)
Married/Joind	\$230,000 - \$240,000 (2024)
Married/Joind	\$236,000 - \$246,000 (2025)

NOTE: Not for Married/Separate!

20

Tax Return

- Contributions to Retirement Plans are Pre-Tax.
- Reduces Taxable Income
- \$23,500 for 2025
- 22% Marginal Tax Bracket MTB
- **Could be \$5,170 less** Federal Taxes



21

2024 Tax Brackets (single)

Taxable Income Ranges	Marginal Tax Rates
• \$0 - \$11,660	10%
• \$47,150	12%
• \$100,525	22%
• \$191,950	24%
• \$243,725	32%
• \$609,350	35%
• >\$609,350	37%



22

2025 Tax Brackets (single)

Taxable Income Ranges	Marginal Tax Rates
• \$0 - \$11,925	10%
• \$48,475	12%
• \$103,350	22%
• \$197,300	24%
• \$250,525	32%
• \$626,350	35%
• >\$626,350	37%



23

\$80,000 Gross Income 2025 example

- Contributions to Retirement Plans are Pre-Tax reduces Taxable Income
- \$23,500 for 2025
- 22% Marginal Tax Bracket MTB
- \$4,472 less Federal Tax?
- **But not all of it was in the 22% MTB. Dropped to 12% MTB.**

The screenshot shows a 2025 Form 1040 with the following key figures:

- Line 1 (Gross Income): \$80,000
- Line 2 (Adjustments): \$23,500
- Line 3 (Taxable Income): \$56,500
- Line 4 (Standard Deduction): \$14,500
- Line 5 (Adjusted Gross Income): \$42,000
- Line 6 (Taxable Income after Deduction): \$27,500
- Line 7 (Tax): \$4,472

 The form also shows a 22% marginal tax rate for the taxable income range of \$103,350 to \$197,300, and a 12% marginal tax rate for the range of \$48,475 to \$103,350.



24

Types of Investment Accounts

- **Taxable**
 - Activity shows up on tax return
 - Interest, Dividends, Capital Gains
 - Can claim a capital loss
 - Tax-Free income has no impact on taxes (Municipal Bonds)
- **Tax Deferred**
 - Regardless of activity, is not reflected on tax return
 - No claiming capital loss




25

Types of Investment Accounts

- **Taxable**
 - Individual or Joint Account
 - Custodial Accounts (for minors)
 - Trust Accounts (estate planning)
- **Tax Deferred**
 - Retirement Plans (401k, 403b, 457, TSP)
 - IRA (Traditional, Rollover, Roth)
 - 529 (College Savings)
 - Annuities (retirement)
 - Life Insurance (Death Benefit, Estate & Business)
 - Health Savings Accounts (healthcare related expenses)




26

Capital Gains (Schedule D)

- Sales Price
- - Cost Basis*
- Gain or Loss

- Short Term: Owned less than 1 year
 - Taxed as Income
- Long Term: Owned > 1 year
 - Taxed at lower capital gain tax rate

*Cost Basis = purchase plus all reinvestments



27

Short Term Gain – Short Term Loss = Net Short Term
 Long Term Gain – Long Term Loss = Net Long Term


Net the two together to get a net Gain or Loss

Up to \$3,000 of losses can be used to lower income

Carryover unused losses until all used up

Capital Gain rate is based on it's own income ranges.

Capital Gains



28


In 2024 Sell something at a \$10,000 Loss with nothing else sold as a gain (no offsetting)

\$3,000 is used to reduce income in 2024
 \$7,000 loss carryover into 2025 and beyond

If something is sold at a gain in 2025, the losses are already there to offset it. If not, \$3,000 will reduce income for tax purposes

Any unused losses Carryover until all used up


Capital Gains (Example)



29

Capital Gains Depends on Taxable Income Levels (2024)

Status	0% Rate	15% Rate	20%Rate
Single	< \$47,025	\$47,026 - \$518,900	> \$518,900
Married – Joint	< \$94,050	\$94,051 - \$583,750	> \$583,750



30

Capital Gains Depends on Taxable Income Levels (2025)

Status	0% Rate	15% Rate	20%Rate
Single	< \$48,350	\$48,351 - \$533,400	> \$533,400
Married – Joint	< \$96,700	\$96,701 - \$600,050	> \$600,050

31

Capital Gains tax calculation

Taxable Income not including capital Gains.
Determines your starting point

Then the Capital Gain dollars that are still in that LTCG Tax Bracket are taxed at that %

Any Capital Gain dollars that are in the next higher LTCG Tax Bracket are taxed at that %

32

Capital Gains tax calculation 2024

Gross Income	\$65,000
Adjustments	\$23,000
AGI	\$42,000
Standard Deduction	\$14,600
Taxable Income	\$27,400 ←

\$19,625 of LT gains taxed at 0%

The next dollar above that taxed at 15% which is less than 22% MTB which is what it would be taxed at if it was a short-term gain rather than long-term

33


Capital Gains on Home Sale

Original Purchase Price
+ All Additions
= Cost Basis

Net Sales Price – Cost Basis = Gain


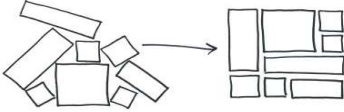
\$250,000 of Gains are free of Capital Gains Tax (Single)
\$500,000 for married couples

Must occupy the house as a primary residency for 24 months of the prior five years.



34


Putting all the pieces together



35

2024 Compare Taxes (Single \$85,000 AGI)

- Std. Ded.	\$14,600	
Taxable Income	\$70,400	22% Marginal Tax Bracket
Tax	<u>\$10,541</u>	
Effective Rate	15%	



36

2024 Compare Taxes (Single \$170,000 AGI)


- Std. Ded.	\$14,600	
Taxable Income	\$155,400	24% Marginal Tax Bracket
Tax	\$30,339	
Effective Rate	20%	



37

2024 Compare Taxes (Married/Joint \$170,000 AGI)

- Std. Ded.	\$29,200	
Taxable Income	\$140,800	22% Marginal Tax Bracket
Tax	\$21,082	
Effective Rate	15%	




38

2024 Compare Taxes (Married/Joint \$170,000 AGI)

- Std. Ded.	\$29,200	
Taxable Income	\$140,800	22% Marginal Tax Bracket
Tax	\$21,082	
Effective Rate	15%	

Local Taxes (PA & Philly) total = \$11,594
 S.A.L.T. limited to \$10,000 Would still take the Standard Deduction




39

Single Buyer - \$80,000/Year Income

Assumptions:

- \$6,667 per month Gross Income
- Want to do 5% Down
- Good Credit (700+)




40

Single Buyer - \$80,000/Year Income

Assumptions:

- \$250,000 Purchase Price
- \$12,500 Down Payment
- \$3,000 Real Estate Taxes
- \$1,200 Homeowner's Insurance
- 7% Interest Rate




41

Mortgage Payment

• Principal and Interest -	\$1,580
• Real Estate Taxes-	\$250
• Homeowners Insurance-	\$100
• PMI-	\$123*
• Total Housing Payment	\$2,053

How Much is Your Rent?????

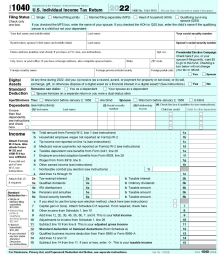

*Fluctuates based on Loan-to-debt value and credit scores



42

Tax Return Renter (2024)

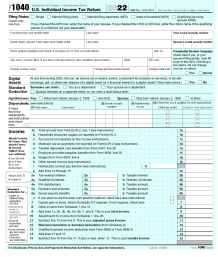

- Income of \$80,000
- Student Loan Interest \$2,500
- AGI = \$77,500

43

Tax Return Renter (2024)

- AGI = \$77,500
- Standard Deduction \$14,600
- Taxable Income of \$62,900
- Taxes of \$8,891

44



Itemized Deductions

State/Local Income Taxes
\$5,456

Real Estate Taxes
\$3,000

Mortgage Interest Deduction =
\$16,549

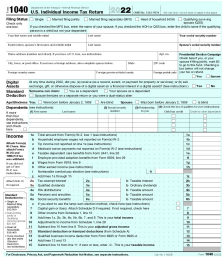

Can now take itemized deductions **\$25,005** instead of standard deduction

45

Homeowner Tax Return


- AGI = \$77,500
- **Itemized Deduction \$25,005**
- Taxable Income of \$52,495
- Taxes of \$6,602
- **Additional \$2,289 back!**

46

S.A.L.T. Limited to \$10,000


<table border="0"> <tr><th colspan="2" style="text-align: center;">2024</th></tr> <tr><td>Gross Income</td><td>\$80,000</td></tr> <tr><td>PA Taxes</td><td>\$2,456</td></tr> <tr><td>Philly Taxes</td><td>\$3,000</td></tr> <tr><td>+ Real Estate Tax</td><td>\$3,000</td></tr> <tr><td>=</td><td><u>\$8,456</u></td></tr> </table>	2024		Gross Income	\$80,000	PA Taxes	\$2,456	Philly Taxes	\$3,000	+ Real Estate Tax	\$3,000	=	<u>\$8,456</u>	<table border="0"> <tr><th colspan="2" style="text-align: center;">2024</th></tr> <tr><td>Gross Income</td><td>\$150,000</td></tr> <tr><td>PA Taxes</td><td>\$4,912</td></tr> <tr><td>Philly Taxes</td><td>\$6,000</td></tr> <tr><td>=</td><td><u>\$10,912</u></td></tr> </table> <p style="background-color: yellow; display: inline-block; padding: 2px;">Real Estate Tax isn't even counted</p>	2024		Gross Income	\$150,000	PA Taxes	\$4,912	Philly Taxes	\$6,000	=	<u>\$10,912</u>
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47

Tax Math

- All Sources of Income
- +/- Adjustments
- = Adjusted Gross Income
- Deductions (**standard** or **Itemized**)
- = Taxable Income (look to the tax brackets)
- x Rates for each Tax Bracket
- = Tax
- Result: REFUND or OWE




48

Tax Math

- All Federal Tax Withholdings from Paychecks and Retirement account withdrawals
- Quarterly Estimated Payments
- Eligible Tax Credits

Used to offset the Tax Bill

Result: REFUND or OWE



49


Tax Credits

This keeps changing

Child Tax Credit

- up to \$2,000/child dependent <=16
- Fully refundable
- Additional \$1,000-\$1,600 depending on age and incomes
- \$500/Qualifying dependent

Under \$200,000 (single)
Under \$400,000 (married/Joint)
Note: not married/separate



50

Tax Credits


This keeps changing

Child & Dependent Care Tax Credit

- up to 50% on up to \$8,000/care
- Or up to \$16,000/care for two or more

Child age <13, Incapacitated Spouse, Parent, Dependent

Single or married/Joint
SSN or TIN of provider
Not relative or dependent




51

Tax Credits
This Keeps Changing

Earned Income Tax Credit (EIC)

- For low and moderate income
- Refundable
- Based on Income limits and number of qualified children
- Maximum credit for 2024 is \$7,830 for those with three or more children
- Note: For married filing separately special rules




52

Tax Credits

Lifetime Learning Credit 2024 & 2025

- 20% of up to \$10,000
- Qualified Higher Education Expenses
- Single up to \$80,000 - \$90,000
- Married/Joint up to \$160,000 - \$180,000



53

Graduate Student Funding and Tax Policy

www.drexel.edu/comptroller/general-accounting/policies-procedures/graduate-student-policy

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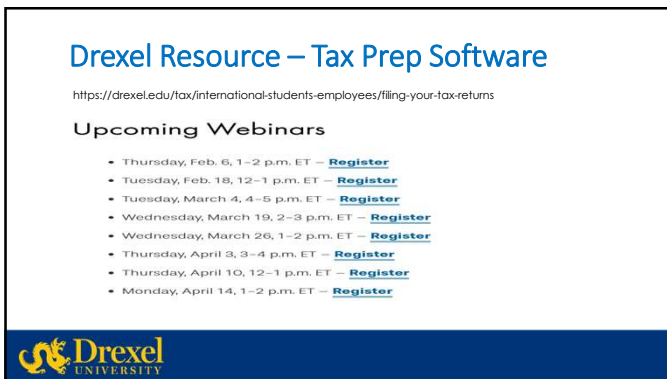
54



55



56



57

Graduate Research Fellow

(GRF) is a full-time graduate student receiving a stipend for research directly related to the program or specialty in which his or her degree is to be conferred. *The research component is a requirement of all candidates in that program as a condition for receiving such degree.*

The source of funding is typically departmental funds, a federally sponsored research grant or a private foundation grant, such as the American Heart Association.

A GRF's stipend is considered taxable compensation for Federal and City of Philadelphia tax withholding purposes.

However, since the research component is a requirement for all candidates in the students program, the stipend is not subject to Pennsylvania personal income tax withholding.

The stipend would be exempt from FICA tax if the student is enrolled for at least a half-time academic workload.



58

International Student – F-1 Visa

Income is considered taxable compensation for Federal and State, City of Philadelphia.

Income would be exempt from FICA tax.



59

Questions?

Questions?

Questions?

Questions?

Questions?

Questions?



60
