Taxes

“In this world nothing can be said to be certain, except death and taxes.”

Benjamin Franklin 1783

Learning Objectives

How Federal Income Taxes work

What you can do about it
Today’s talk does not constitute Tax Advice

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 2023 tax rates as well as 2024 rates. Over the next couple of months, you may be preparing to file your 2023 tax return.

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All Sources of Income

$\pm$ Adjustments

= Adjusted Gross Income (AGI)

- Deductions (standard or Itemized)

- Exemptions

= Taxable Income (look to the tax brackets)

$\times$ Rates for each Tax Bracket

= Tax

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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
1040 Tax Return

Schedule 1
Adjustments To Income
- Adjusted Gross Income (AGI)

Schedule A
Deductions From Income
Single: ($13,850 in 2023)  
($14,600 in 2024)
Married: ($27,700 in 2023)  
($29,200 in 2024)
= Taxable Income

Adjustments – Schedule 1
Additional Income
- Alimony Received (line 8)
- Business Inc. (Schedule C)

Schedule C
Profit or Loss from Business
- Side Hustles/Gigs
- Independent Contractor (1099)
- All Revenue
- Minus
- All Expenses

USE an Accountant!!!!!!
Schedule E
Profit or Loss from:
Rental Real Estate
Royalty Income
Partnerships & S-Corp
Passive Income Investments from K-1

USE an Accountant!!!!!!

1040 Tax Return
Adjustments – Schedule 1
Adjustments To Income
Educator Expenses
Certain Business Expenses
Health Savings Accounts (H.S.A.)
Moving Expenses (military)
Self-Employment Taxes & Insurances
Alimony Paid (old)
Traditional IRA deduction
Student Loan Interest
Tuition & Fees

1040 Tax Return
Itemized Deductions – Schedule A
Medical and Dental
>7.5% 2021 onward
State & Local Taxes Paid (S.A.L.T.)
limit $10,000
Interest Paid (mortgages)
Charity, Theft, Other
Job Related and Miscellaneous
No longer deductible
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

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

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
**Employee Benefits**

- **Health Insurance Premiums**
  - For out of pocket medical or child care

- **Flexible Spending Accounts**
  - Reduce your income dollar for dollar
  - Do not need to itemize to do so.
  - $3,200 for Healthcare (2024)
  - $5,000 for dependent care (2024)
  - Need to have routine predictable expenses
  - Use to be a use it or lose it condition
  - Some let you carry over $640 (2024) to the next year

- **Health Savings Accounts**
  - Need to have high deductible health insurance

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**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
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
  - $22,500/year maximum from your wages (2023)
  - $23,000/year maximum from your wages (2024)
- 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

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: $128,000 - $153,000 (2023)
  - Single: $144,000 - $161,000 (2024)
  - Married/Joint: $218,000 - $228,000 (2023)
  - Married/Joint: $230,000 - $240,000 (2024)

*NOTE: Not for Married/Seperated*

Tax Return

- Contributions to Retirement Plans are Pre-Tax.
- Reduces Taxable Income
  - $23,000 for 2024
  - 22% Marginal Tax Bracket MTB
- Could be $5,520 less Federal Taxes
2023 Tax Brackets (single)

<table>
<thead>
<tr>
<th>Taxable Income Ranges</th>
<th>Marginal Tax Rates</th>
</tr>
</thead>
<tbody>
<tr>
<td>$0 - $11,000</td>
<td>10%</td>
</tr>
<tr>
<td>$44,725</td>
<td>12%</td>
</tr>
<tr>
<td>$95,375</td>
<td>22%</td>
</tr>
<tr>
<td>$182,100</td>
<td>24%</td>
</tr>
<tr>
<td>$231,250</td>
<td>32%</td>
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<tr>
<td>$578,125</td>
<td>35%</td>
</tr>
<tr>
<td>&gt;$578,125</td>
<td>37%</td>
</tr>
</tbody>
</table>

2024 Tax Brackets (single)

<table>
<thead>
<tr>
<th>Taxable Income Ranges</th>
<th>Marginal Tax Rates</th>
</tr>
</thead>
<tbody>
<tr>
<td>$0 - $11,660</td>
<td>10%</td>
</tr>
<tr>
<td>$47,150</td>
<td>12%</td>
</tr>
<tr>
<td>$100,525</td>
<td>22%</td>
</tr>
<tr>
<td>$219,950</td>
<td>24%</td>
</tr>
<tr>
<td>$243,725</td>
<td>32%</td>
</tr>
<tr>
<td>$609,350</td>
<td>35%</td>
</tr>
<tr>
<td>&gt;$609,350</td>
<td>37%</td>
</tr>
</tbody>
</table>

$65,000 Gross Income 2024 example

- Contributions to Retirement Plans are Pre-Tax reduces Taxable Income
- $23,000 for 2024
- 22% Marginal Tax Bracket MTB
- $5,060 less Federal Tax?
- But not all of it was in the 22% MTB. Dropped to 12% MTB.
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 (e.g., Muni Bonds)

- **Tax Deferred**
  - Regardless of activity, is not reflected on tax return
  - No claiming capital loss

Types of Investment Accounts

- **Taxable**
  - Individual or joint account
  - Estate accounts (bequests)
  - Profit accounts (profit sharing)

- **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)

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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
Capital Gains

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 its own income ranges.

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 Depends on Taxable Income Levels (2023)

<table>
<thead>
<tr>
<th>Status</th>
<th>0% Rate</th>
<th>15% Rate</th>
<th>20% Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Single</td>
<td>&lt; $44,625</td>
<td>$44,626 - $492,300</td>
<td>&gt; $492,300</td>
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<tr>
<td>Married – Joint</td>
<td>&lt; $89,250</td>
<td>$89,251 - $553,850</td>
<td>&gt; $553,850</td>
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</tbody>
</table>
Capital Gains Depends on Taxable Income Levels (2024)

<table>
<thead>
<tr>
<th>Status</th>
<th>0% Rate</th>
<th>15% Rate</th>
<th>20% Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Single</td>
<td>&lt; $47,025</td>
<td>$47,026 - $518,900</td>
<td>&gt; $518,900</td>
</tr>
<tr>
<td>Married – Joint</td>
<td>&lt; $94,050</td>
<td>$94,051 - $583,750</td>
<td>&gt; $583,750</td>
</tr>
</tbody>
</table>

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 %.

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.
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.

Putting all the pieces together

2024 Compare Taxes (Single $85,000 AGI)

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

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
**Single Buyer - $80,000/Year Income**

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

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**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

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**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
Tax Return
Renter (2024)

• Income of $80,000

• Student Loan Interest $2,500

• AGI = $77,500

Tax Return
Renter (2024)

• AGI = $77,500

• Standard Deduction $14,600

• Taxable Income of $62,900

• Taxes of $8,891

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
Homeowner Tax Return

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

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

<table>
<thead>
<tr>
<th></th>
<th>2024</th>
<th>2024</th>
</tr>
</thead>
<tbody>
<tr>
<td>GrossIncome</td>
<td>$80,000</td>
<td>$150,000</td>
</tr>
<tr>
<td>PA Taxes</td>
<td>$2,456</td>
<td>$4,912</td>
</tr>
<tr>
<td>Philly Taxes</td>
<td>$3,000</td>
<td>$6,000</td>
</tr>
<tr>
<td>+ Real Estate Tax</td>
<td>$3,000</td>
<td></td>
</tr>
<tr>
<td>=</td>
<td>$8,456</td>
<td>$10,912</td>
</tr>
</tbody>
</table>

Real Estate Tax isn’t even counted

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
## 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

### Tax Credits

This keeps changing

<table>
<thead>
<tr>
<th>Child Tax Credit</th>
<th>up to $2,000/child dependent &lt;=16</th>
<th>Fully refundable</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Additional $1,000-$1,600 depending on age and incomes</td>
<td>$500/Qualifying dependent</td>
</tr>
<tr>
<td>Under $200,000 (single)</td>
<td>Under $400,000 (married/joint)</td>
<td>Note: not married/separate</td>
</tr>
</tbody>
</table>

### 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
Tax Credits

Earned Income Tax Credit (EIC)
For low and moderate income
Refundable
Based on income limits and number of qualified children
Maximum credit for 2021 is $6,728 for those with three or more children
Note: For married filing separately special rules

Lifetime Learning Credit 2023 & 2024
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

Questions?