



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\$" February 8<sup>th</sup> 2024

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Taxes

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

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Learning Objectives

- How Federal Income Taxes work
- What you can do about it



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**Disclaimer**

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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**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



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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





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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



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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



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### 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




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## 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



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### 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.
- \$3,200 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



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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



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### 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**



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### 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        | \$138,000 - \$153,000 (2023) |
| Single        | \$146,000 - \$161,000 (2024) |
| Married/Joind | \$218,000 - \$228,000 (2023) |
| Married/Joind | \$230,000 - \$240,000 (2024) |

**NOTE: Not for Married/Separate!**

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### 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



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### 2023 Tax Brackets (single)

| Taxable Income Ranges | Marginal Tax Rates |
|-----------------------|--------------------|
| • \$0 - \$11,000      | 10%                |
| • \$44,725            | 12%                |
| • \$95,375            | 22%                |
| • \$182,100           | 24%                |
| • \$231,250           | 32%                |
| • \$578,125           | 35%                |
| • >\$578,125          | 37%                |



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### 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%                |



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### \$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.**



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**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




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**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)




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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



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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**



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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)**



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**Capital Gains Depends on Taxable Income Levels (2023)**

| Status          | 0% Rate    | 15% Rate             | 20%Rate     |
|-----------------|------------|----------------------|-------------|
| Single          | < \$44,625 | \$44,626 - \$492,300 | > \$492,300 |
| Married – Joint | < \$89,250 | \$89,251 - \$553,850 | > \$553,850 |



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**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 |



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**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 %



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**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



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**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.



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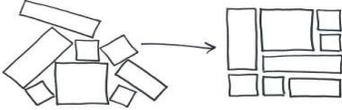
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**Putting all the pieces together**




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**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%             |                          |



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

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



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

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



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

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

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



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### 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



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### Tax Return Renter (2024)

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




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### Tax Return Renter (2024)

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




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### 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




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### Homeowner Tax Return

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




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

| <table border="0"> <tr><th colspan="2" style="text-align: center;"><u>2024</u></th></tr> <tr><td>Gross Income</td><td style="text-align: right;">\$80,000</td></tr> <tr><td>PA Taxes</td><td style="text-align: right;">\$2,456</td></tr> <tr><td>Philly Taxes</td><td style="text-align: right;">\$3,000</td></tr> <tr><td>+ Real Estate Tax</td><td style="text-align: right;">\$3,000</td></tr> <tr><td>=</td><td style="text-align: right;"><u>\$8,456</u></td></tr> </table> | <u>2024</u>     |  | 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;"><u>2024</u></th></tr> <tr><td>Gross Income</td><td style="text-align: right;">\$150,000</td></tr> <tr><td>PA Taxes</td><td style="text-align: right;">\$4,912</td></tr> <tr><td>Philly Taxes</td><td style="text-align: right;">\$6,000</td></tr> <tr><td>=</td><td style="text-align: right;"><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> | <u>2024</u> |  | Gross Income | \$150,000 | PA Taxes | \$4,912 | Philly Taxes | \$6,000 | = | <u>\$10,912</u> |
|---|-----------------|--|--------------|----------|----------|---------|--------------|---------|-------------------|---------|---|----------------|---|-------------|--|--------------|-----------|----------|---------|--------------|---------|---|-----------------|
| <u>2024</u>   |                 |  |              |          |          |         |              |         |                   |         |   |                |   |             |  |              |           |          |         |              |         |   |                 |
| Gross Income  | \$80,000        |  |              |          |          |         |              |         |                   |         |   |                |   |             |  |              |           |          |         |              |         |   |                 |
| PA Taxes  | \$2,456         |  |              |          |          |         |              |         |                   |         |   |                |   |             |  |              |           |          |         |              |         |   |                 |
| Philly Taxes  | \$3,000         |  |              |          |          |         |              |         |                   |         |   |                |   |             |  |              |           |          |         |              |         |   |                 |
| + Real Estate Tax   | \$3,000         |  |              |          |          |         |              |         |                   |         |   |                |   |             |  |              |           |          |         |              |         |   |                 |
| =   | <u>\$8,456</u>  |  |              |          |          |         |              |         |                   |         |   |                |   |             |  |              |           |          |         |              |         |   |                 |
| <u>2024</u>   |                 |  |              |          |          |         |              |         |                   |         |   |                |   |             |  |              |           |          |         |              |         |   |                 |
| Gross Income  | \$150,000       |  |              |          |          |         |              |         |                   |         |   |                |   |             |  |              |           |          |         |              |         |   |                 |
| PA Taxes  | \$4,912         |  |              |          |          |         |              |         |                   |         |   |                |   |             |  |              |           |          |         |              |         |   |                 |
| Philly Taxes  | \$6,000         |  |              |          |          |         |              |         |                   |         |   |                |   |             |  |              |           |          |         |              |         |   |                 |
| =   | <u>\$10,912</u> |  |              |          |          |         |              |         |                   |         |   |                |   |             |  |              |           |          |         |              |         |   |                 |



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### 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



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**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



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**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



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**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



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Earned Income Tax Credit (EIC)

Tax Credits

This Keeps Changing

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



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Lifetime Learning Credit 2023 & 2024

Tax Credits

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



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Questions?

Questions?

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Questions?

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