

SMART TAX PLANNING: YOUR GUIDE TO FINANCIAL LITERACY

A WEBINAR FOR EMPLOYEES FROM YOUR
EMPLOYEE ASSISTANCE PROGRAM

January 10, 2024



Federal
Occupational
Health

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OBJECTIVES

Understand the basics of the U.S. income tax laws

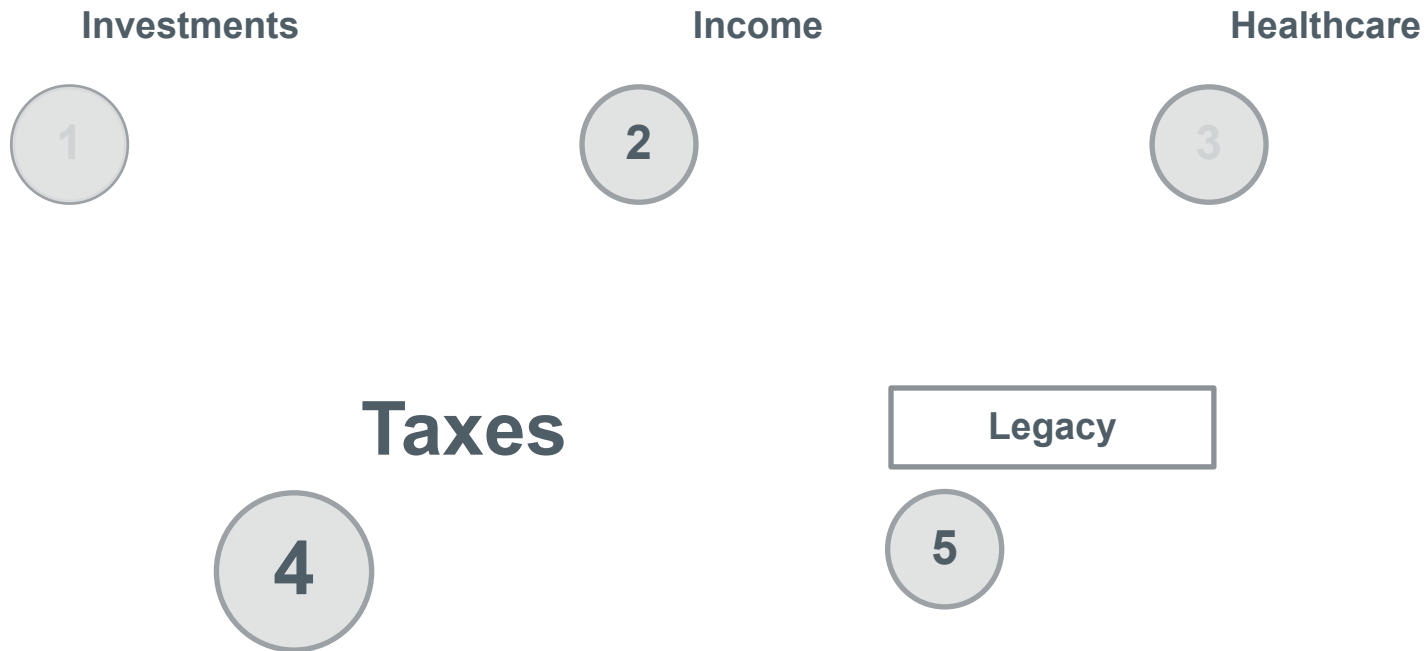
Know the differences and tax decisions between Qualified and Non-Qualified money

Examine tax strategies that volatility creates

Discover ways to integrate taxes in retirement

Determine potential changes in future tax laws

TAXES: AN ESSENTIAL ELEMENT OF A FINANCIAL PLAN



SECTION 1

TAXES 101

TAXABLE INCOME

**Gross
income**



Deductions



**Taxable
income**

Gross income:

Total earnings before
taxes and deductions

Wages, salaries, interest
payments, and tips, etc.

Deductions:

Reductions in taxable income

Expenses or losses that can be
subtracted from gross income to
lower the taxable amount

STANDARD DEDUCTIONS

Every individual is entitled to a standard deduction OR itemized deductions, whichever is higher.

Filing Status	2023 Tax Year
Single	\$13,850
Married (filing jointly)	\$27,700
Married (filing separately)	\$13,850
Head of household	\$20,800

ITEMIZED DEDUCTIONS

Medical
expenses
(Above 7.5% of
Adjusted Gross
Income)

Mortgage
interest

State and local
taxes
(Up to \$10,000,
including property/
real estate taxes)

Charitable
deductions

SECTION 2

MARGINAL TAX BRACKETS

TAX BRACKETS: MARGINAL VS. EFFECTIVE RATES

Marginal rate

The rate at which your next dollar
is taxed

(Refers to the highest tax bracket into
which your income falls)

Effective rate

The average rate at which your
earned and unearned income are
taxed

(Total tax paid divided by gross
income)



When making long-term tax planning decisions it's important to **focus on the *marginal rate*, not the *effective rate***, as it is the rate at which your next dollar is taxed.

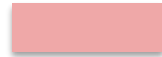
CURRENT MARGINAL TAX BRACKETS

Tax Rate	Single Filers	Married Individuals Filing Joint Returns	Heads of Household
10%	\$0 to \$11,000	\$0 to \$22,000	\$0 to \$15,700
12%	\$11,001 to \$44,725	\$22,001 to \$89,450	\$15,701 to \$59,850
22%	\$44,726 to \$95,375	\$89,451 to \$190,750	\$59,851 to \$95,350
24%	\$95,376 to \$182,100	\$190,751 to \$364,200	\$95,351 to \$182,100
32%	\$182,101 to \$231,250	\$364,201 to \$462,500	\$182,101 to \$231,250
35%	\$231,251 to \$578,125	\$462,501 to \$693,750	\$231,251 to \$578,100
37%	\$578,126 or more	\$693,751 or more	\$578,101 or more

EXAMPLE: MARGINAL VS. EFFECTIVE RATES

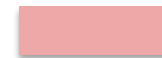
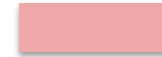
\$100,000

Gross
income



\$14,000

Itemized
deductions



\$86,000

Taxable
income

\$86,000 of taxable income puts a single individual's **marginal rate** in the 22% tax bracket

- Based on the table, the approximate total of taxes owed is \$14,200, which represents an **effective rate** of 14.2%

But let's say this individual also withdrew \$20,000 from their traditional IRA during the tax year

- Because the marginal rate is 24%, they would pay 24% tax on it, NOT 14.6%
- The total tax on the additional \$20,000 in income would be \$4,400, NOT \$2,900

TAX CUTS AND JOBS ACT OF 2017

This law
temporarily
changed
the tax code

Started in
2018 and
lasting
until 2025

Marginal tax
rates expanded
significantly,
leaving many
people in their
lowest marginal
tax bracket ever

2017 VS. 2023 RATES: SINGLE

Tax Rate	2017	2023
10%	\$0 to \$9,275	\$0 to \$11,000
12%	N/A	\$11,001 to \$44,725
15%	\$9,276 to \$37,650	N/A
22%	N/A	\$44,726 to \$95,375
24%	N/A	\$95,376 to \$182,100
25%	\$37,651 to \$91,150	N/A
28%	\$91,151 to \$190,150	N/A
32%	N/A	\$182,101 to \$231,250
33%	\$190,151 to \$413,350	N/A
35%	\$413,351 to \$415,050	\$231,251 to \$578,125
37%	N/A	\$578,126 or more
39.5%	\$415,051 or more	N/A

2017 VS. 2023 RATES: MARRIED FILING JOINTLY

Tax Rate	2017	2023
10%	\$0 to \$18,550	\$0 to \$22,000
12%	N/A	\$22,001 to \$89,450
15%	\$18,551 to \$75,300	N/A
22%	N/A	\$89,451 to \$190,750
24%	N/A	\$190,751 to \$364,200
25%	\$75,301 to \$151,900	N/A
28%	\$151,901 to \$231,450	N/A
32%	N/A	\$364,201 to \$462,500
33%	\$231,451 to \$413,350	N/A
35%	\$413,351 to \$466,950	\$462,501 to \$693,750
37%	N/A	\$693,751 or more
39.5%	\$466,951 or more	N/A

SECTION 3

NON-QUALIFIED VS. QUALIFIED MONEY

NON-QUALIFIED MONEY

Examples: Bank accounts, brokerage accounts, homes, rental properties

There are no special tax structures as determined by the IRS and is taxed at potentially different rates

After tax

Investments are taxed when a distribution occurs

(Growth is unrealized until the position is changed or distributed to account holder)

- Earnings taxed at lower capital gains tax rates if kept longer than one year
- Dividends and interest are taxed **annually**

Stepped-up basis

Upon death of account holder:

- Any unrealized growth is eliminated for tax purposes
- The inherited account holder's new basis is established

QUALIFIED MONEY

Qualified money is any account that has a special tax structure on it as determined by the IRS

Employer
sponsored

TSP

401k

401A

403B

457

Individually
sponsored

IRA

HOW MONEY IS QUALIFIED

One of two ways:

Traditional

Contributions are tax-deductible

Earnings are tax deferred

Distributions are **fully taxable** as ordinary income

Roth

Contributions are after-tax dollars

Earnings are tax deferred

Distributions are **tax free**

TAXATION OF QUALIFIED MONEY

Traditional accounts

At age 73, you must begin taking a Required Minimum Distribution (RMD)

Fully taxable and can't be rolled into any other qualified account

Upon your death, your spouse can inherit your account as if it were theirs

All rules that applied to the original account owner rules still apply

Non-spouse beneficiaries must distribute 100% of the account within 10 years of your death

Cannot be combined with any other qualified retirement accounts

Must take RMD if account holder was older than 73 upon death

Roth accounts

There are no RMDs

Upon your death, your spouse can inherit your account as if it were theirs

Non-spouse beneficiaries must distribute 100% of the account within 10 years of your death

This is a tax-free distribution

Must take RMD if account holder was older than 73 upon death

KEY PLANNING CONSIDERATIONS FOR QUALIFIED MONEY

To determine the best plan for qualified money, think about your answers to these questions:

Does it make sense to transfer your money

- Employer-sponsored plans have extra restrictions that individual plans do not
- Your investment strategy shouldn't be a factor, as 401k investments are comparable to those of IRAs

How will tax brackets change in the future?

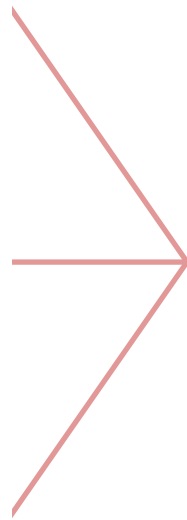
- Consider whether you're better positioned to pay less in taxes today (Roth), or less in the future (traditional)
 - In 2026, taxes will go up
- Re-invested RMDs will be taxed on interest yearly

EXAMPLE

Employer
sponsored
\$10,000 401K

Employer
sponsored
\$10,000 4013B

Employer
sponsored
\$10,000 TSP



Individual
sponsored
\$30,000 IRA



IRS: Money is
taxed upon exit

SECTION 4

OTHER TAX CONSIDERATIONS

ROTH CONVERSIONS

Employer-sponsored plans

Often limit the ability to convert from traditional to Roth

TSP doesn't allow conversions

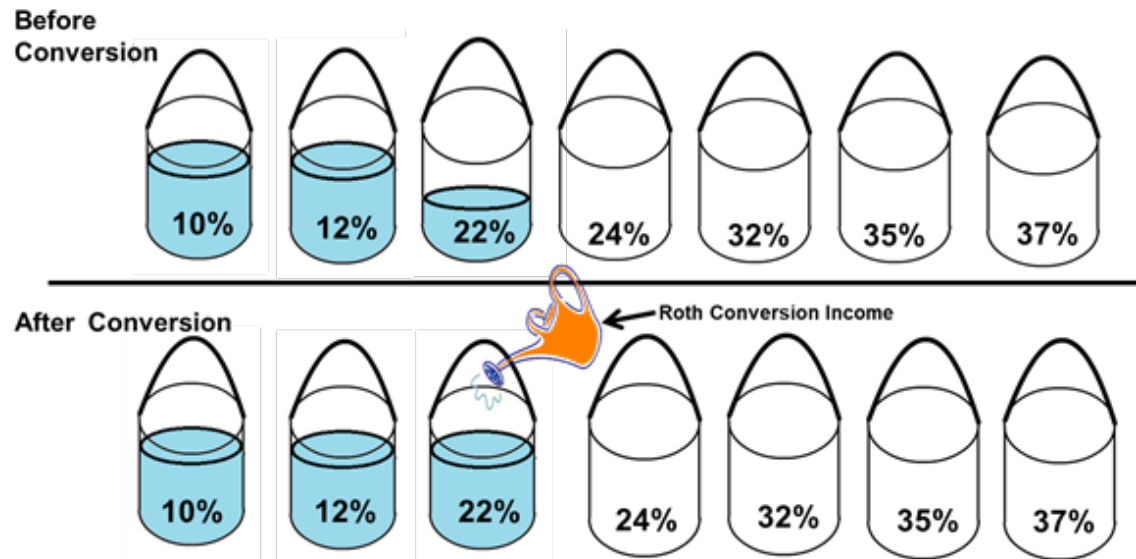
Can contribute to the Roth portion of the plan

TSP allows contributions to a Roth or traditional TSP

Individually-sponsored accounts

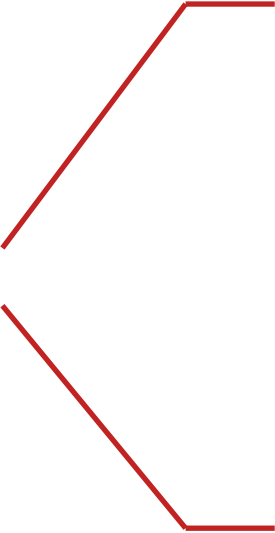
Allowed to be converted from traditional to Roth

Taxes are due to the IRS upon conversion



TAXES AND VOLATILITY

Stock market
dips are prime
time for tax
planning



Due to volatility,
converting
investments at
significant dips is
crucial if you plan on
holding them

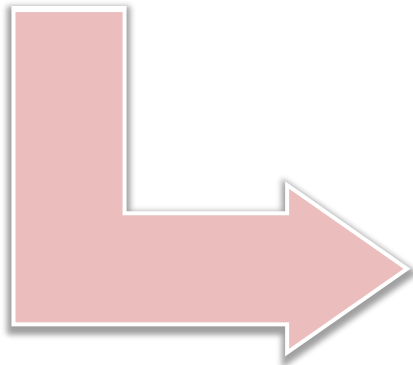
If the investment rises
again, you will receive
those earnings tax-
free

TAXES AND SOCIAL SECURITY

Social Security is taxable as ordinary income up to 85%

Amount depends on all other forms of an individual's income, including:

- Pensions
- Rental income
- Traditional distributions
- Dividends
- Tax-free interest
- Roth TSP distributions



The less taxable provisional income, the less Social Security is taxed

Roth IRAs are exempt

OTHER TAX STRATEGIES TO CONSIDER

The order in which you take assets is critical in retirement

Letting traditional accounts grow could result in much higher lifetime taxes

Work with your advisor to ensure you are accessing the proper bucket of money in the proper order

For example, which makes more sense?

Spending non-qualified money in the first years of retirement, enjoying lower capital gains rates, and delaying taking traditional IRA money until you are 73 when the RMD kicks in

OR

Aggressively taxing traditional IRA money in the early years, reducing your RMD, and leaving a tax-free inheritance behind due to stepped-up basis

BE AWARE OF KEY TAX CHANGES

There are multiple proposals in the House that will eliminate the conversion of non-deductible IRAs/401Ks from traditional to Roth, including ones that aim to:

Eliminate the stepped-up basis rule



Speed up the expiration date of current tax tables

(currently set for 2025)

Note: There is constant change, and we can't predict anything. You must make educated decisions based on the information available.

Tax planning is ONGOING!

SUMMARY



Plan for the current marginal tax brackets to expire, potentially much sooner than 2025

Determine whether your money is qualified or non-qualified and understand how it will be taxed

Conduct an income analysis of your retirement situation to see how your taxable accounts integrate with Social Security

Remember that taxation doesn't end with you – it can be passed on to the next generation

Keep an eye on tax changes and keep your plan dynamic

RESOURCES

Websites

Internal Revenue Service: [irs.gov](https://www.irs.gov)

Interactive Tax Assistant:

[irs.gov/help/ita](https://www.irs.gov/help/ita)

Tax Withholding Estimator:

[irs.gov/individuals/tax-withholding-estimator](https://www.irs.gov/individuals/tax-withholding-estimator)

The Institute for Financial Education

ifeonline.org | ifeonline.org/plan

Podcast

For Your Benefit

Weekly episodes, Mondays at 10:00am ET

[federalnewsnetwork.com/category/federal-insights/for-your-benefit](https://www.federalnewsnetwork.com/category/federal-insights/for-your-benefit)

Online Articles

Income Tax Terms Guide: Taxes

[investopedia.com/terms/t/taxes.asp](https://www.investopedia.com/terms/t/taxes.asp)

App

Cash App Taxes

Free filing via phone or online

cash.app/taxes

Calculators

360 Degrees Financial Literacy

Marginal Tax Rate

[360financialliteracy.org/Topics/Working-with-a-CPA/Year-round-Planning/Marginal-Tax-Rate-Calculator](https://www.360financialliteracy.org/Topics/Working-with-a-CPA/Year-round-Planning/Marginal-Tax-Rate-Calculator)

All Types of Calculators

[360financialliteracy.org/Calculators](https://www.360financialliteracy.org/Calculators)

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