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Table of Contents:

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

~Benjamin Franklin

Terms and Ideas

Taxes

Taxes, a necessary request from the government for every person, organization, company, and estate. Meaning that everyone must report their income on their tax returns to the IRS so they can calculate their tax due. Although some organizations are exempt from paying taxes, they still have to file returns.

Tax Bracket

Refers to a range of incomes subject to a certain amount of tax rate. Currently, there are seven federal tax brackets ranging from 10%-37%

- Ways to file - single, married filing jointly, married filing separate, qualifying widow, head of household
- Progressive tax - tax payers pay the lowest tax on their first level of taxable income in their bracket and a higher rate on the next level, and so on
- Flat tax - A system where everyone pays the same rate, regardless of total income

State Tax Brackets - Some states have income tax and some do not (see tax bracket link).

Credits and Deductions

Standard Deduction **IRS Standard Deduction** - The IRS allows for a portion of income to not be subject to tax. The amount that is adjusted for inflation every year can be used to reduce your tax bill

Itemized Deductions - Is an expenditure (i.e. mortgage interest, charitable gifts, unreimbursed medical expenses) for eligible products, services, or contributions that can be used to reduce your taxable income

Tax Exemptions - Are based on your filing status and the number of dependents you claim. A $5,000 exemption would save you (if you're in the 25% tax bracket) $1,250 in taxes.

Tax Deductions - Are related to expenses you've paid throughout the tax year, i.e. it reduces your income. Deductions subtract from your income.

Tax Credit **Credits & Deductions for Individuals** - A dollar for dollar reduction of your tax liability. Meaning if you owe $5,000 in taxes then a $5,000 tax credit would eliminate what you owe to the IRS

- Refundable Tax Credits - Credits that can actually put cash back into your pocket if there's any remaining balance after your tax liability is reduced to nothing
- Nonrefundable Tax Credits - Credits that reduce your tax liability but only to zero. Any remaining credit doesn't make it back into your pocket

Personal Exemption - Eliminated in the Tax Cut and Jobs Act

Exemptions for Dependents - Additional tax exemptions are available for each eligible dependent in your home. For example, children (nieces and nephews apply as well - doesn't need to be a biological child) must live with you for more than half the year or be under a certain age. IRS - Publication 17

Types of Income

- Wages
- Interest
- Dividends
- Profits on Investments
- Pensions
- IRA, SEP, SIMPLE & 401k distributions

Earned Income - is taxed differently than unearned income, or income generated from employment, unemployment benefits, sick pay, PTO, and some fringe benefits

Unearned Income - Interest, dividends, royalties, profits from a sale of assets

Withholding - Paying taxes throughout the year for income tax purposes to the IRS. If you're self employed you'll "withhold" income by making estimated tax payments on a quarterly basis. Tip: Pay at least 90% of your total tax liability to avoid penalties (you'll get a refund if you overpay but pay a penalty if you under pay)

Gross Income - An individual's total pay from their employer before taxes or deductions

Adjusted Gross Income (AGI) - It's the modified version of gross income. AGI is incorporating allowable deductions to reach your income tax liability (Calculated by making "Above the line" adjustments to an individual's gross income) It's what is considered your total taxable income

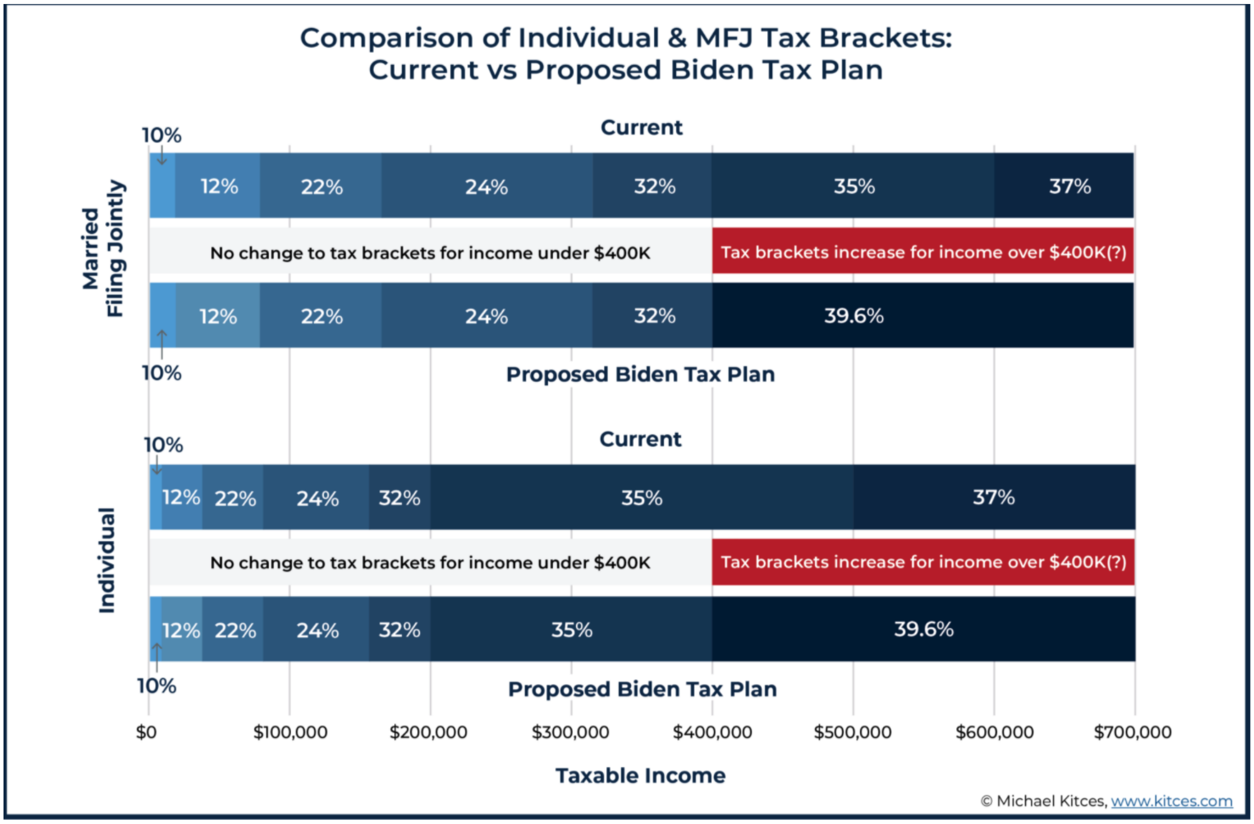
Net Income - Also known as "after tax" income not your total taxable income.

Above the Line Deductions - Retirement plan contributions, HSA contributions, Health Insurance premiums, Self-Employed Business expenses & tax, Alimony (if done before Dex 31, 2018 - not if executed after), Educator Expenses, Early withdrawal penalties, Moving Expenses (for active duty members of the U.S. Armed Forces) Student loan interest, and Tuition & Fees

Below the Line Deductions - After you find your AGI by taking all the above the line deductions, you then can claim below the line deductions. They're commonly referred to as itemized deductions but an example is the Qualified Business Interest deduction (QBI)

Potential Tax Plan Changes

Biden Administration Proposed Tax Plans



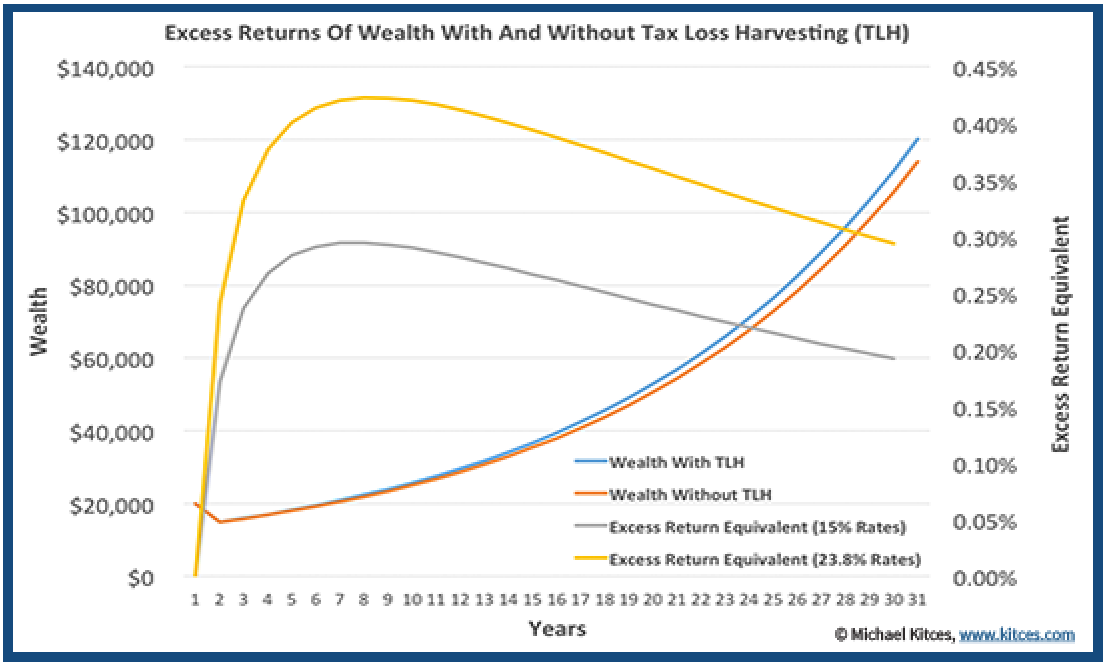
Capital Gain Strategies

2021 Capital Gains Tax Rates

Married Income Threshold	Single Income Threshold	Long Term Capital Gains Rate
Up to $80,800	Up to $40,400	0%
Between $80,801 up to $501,600	Between $40,400 up to $445,850	15%
Over $501,600	Over $445,851	20%

Tax Harvesting:

- Capture gains/losses throughout the year
- Offset tax liability and avoid wash sales
- Creating Tax Alpha



Net Unrealized Appreciation

- Distribute retirement account to taxable account
- Pay ordinary income on average cost basis of employer stock
- Pay LTCG tax on difference between cost basis and current value

Charitable Trusts

- Charitable Remainder Trust (CRT) - Sell a portion or all of your position to a CRT get income for “X” amount of years, deduction now, remainder goes to charity
- Charitable Lead Trust (CLT) - Sell a portion or all of your position to a CLT, give income to charity for “X” amount of years, deduction now, remainder goes to family

Donor-Advised Fund

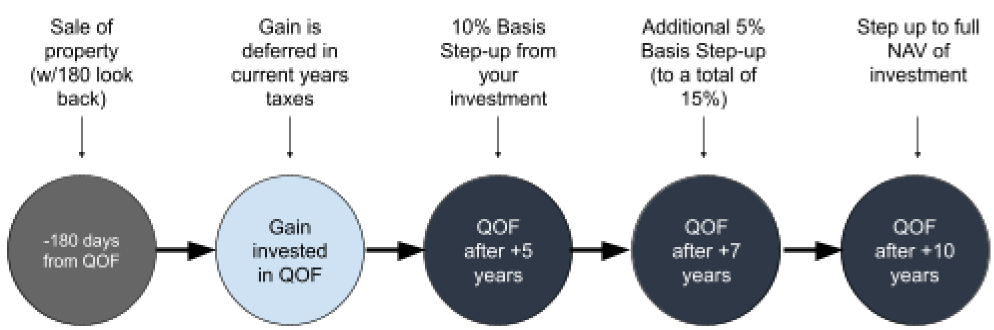
- Donate appreciated stocks to charity to get a tax deduction now
- Donate to charity on your own terms

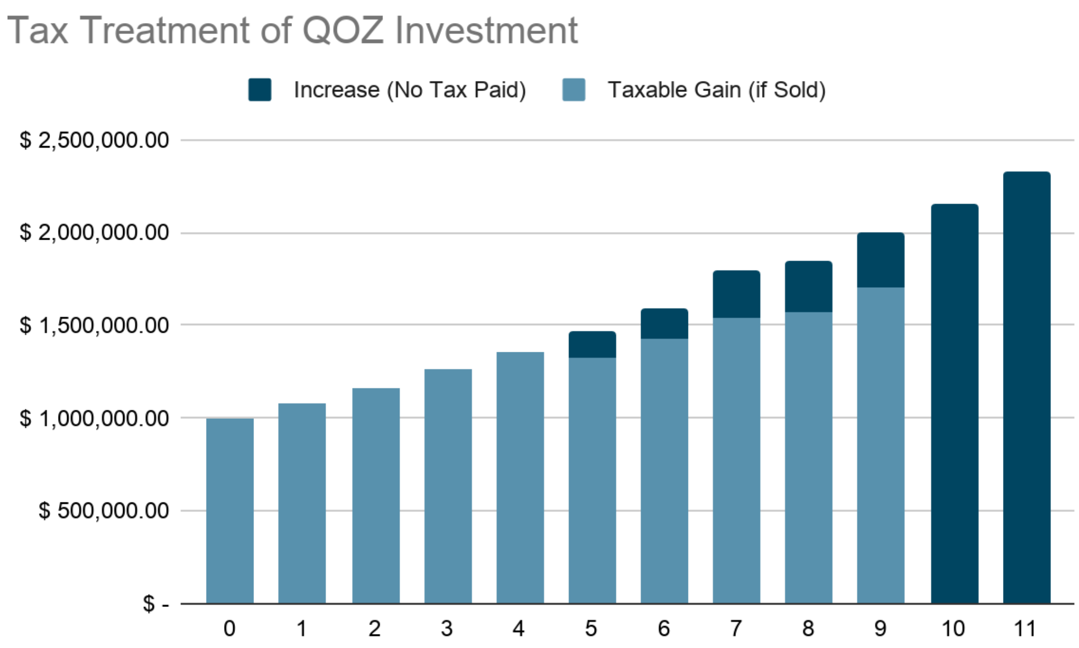
Grantor Trust

- Fund a trust now with shares that are expected to appreciate at a high rate and remove the assets from your estate (irrevocable gift)
- Grantor receives an annuity income or % from the trust for a specified Term and then the assets pass to family

Opportunity Zone

- Defer % of taxes due by contributing money from a sale of assets into an Qualified Opportunity Zone (QOZ) investment.
- Get tax free growth on money contributed for the duration of the investment
- Reduce tax liability now and in the future (Must make investment before 12/31/2021 to receive 10% Step-up)





*Based on $100,000 investment being sold and having a $1,000,000 LTCG. Who will be managing the QOF? What type of fees does the QOF charge to investors? What type of assets is the QOF purchasing, and where? What, really, is the actual income or growth potential of the underlying real estate or other investments being made into a low-income area?

Staged Selling with Capital Gains Budget

- Agreeing in advance to sell at certain thresholds up to certain amounts on a per year basis, to reduce your tax liability easily over years and even decades of strategic selling

Installment Sales

- Collect sales proceeds over a specified period to reduce a large tax liability for the sale of a business

1031 Exchange

- Exchange proceeds from the sale of one property to another and defer paying taxes now

Paying vs Deferring

Assessing the True Value of an Investment with Embedded Capital Gains

Assets	
Appreciated Investment (w/ Cost Basis of $70,000)	$100,000
Net Unrealized Gains	$30,000
Total Assets:	$100,000

Liabilities	
Embedded Capital Gains Tax Liability (at 15% gains rate - $30,000 * .15)	$4,500
Total Liabilities:	$4,500

Net Value = Net Assets - Net Liabilities

Net Value	$95,500

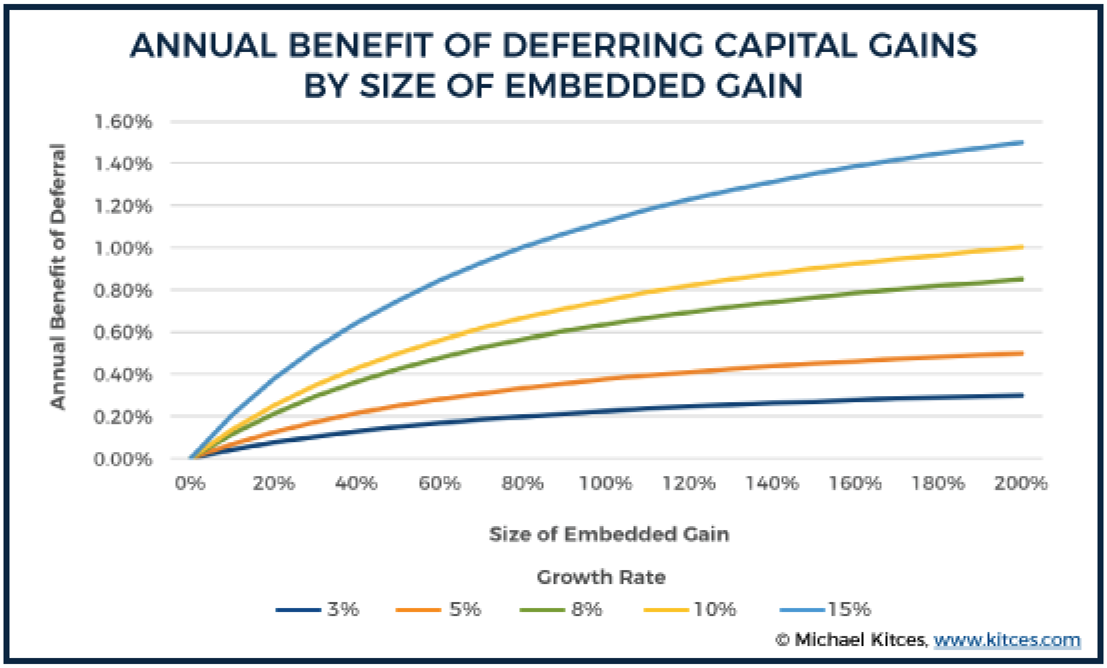
Assessing the Real Economic Value of Deferring Capital Gains

Gain = Value - Cost Basis

$$\frac{\text{(Growth Rate * Gain * Tax Rate)}}{\text{(Asset Value - (Gain * Tax Rate))}}$$

Results:

$$\frac{(.09 * \$50{,}000 * .15)}{(\$120{,}000 - (\$50{,}000 * .15))} = .59\% \text{ per Year}$$


ANNUAL BENEFIT OF DEFERRING CAPITAL GAINS
BY SIZE OF EMBEDDED GAIN
Annual Benefit of Deferral
1.60%
1.40%
1.20%
1.00%
0.80%
0.60%
0.40%
0.20%
0.00%
0%
20%
40%
60%
80%
100%
120%
140%
160%
180%
200%
Size of Embedded Gain
Growth Rate
3%
5%
8%
10%
15%
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