

# Taxes

*How they impact your finances*

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Presented by Cerity Partners

# Today's Discussion

- Why do we pay taxes?
- How are your wages and other income taxed?
- How can you reduce your income taxes?
- How do your investments impact your tax liability?
- What are the other types of taxes?

# Why Do We Pay Taxes?

*While no one “likes” to pay taxes, they play a vital role in the health of our communities, states and country.*

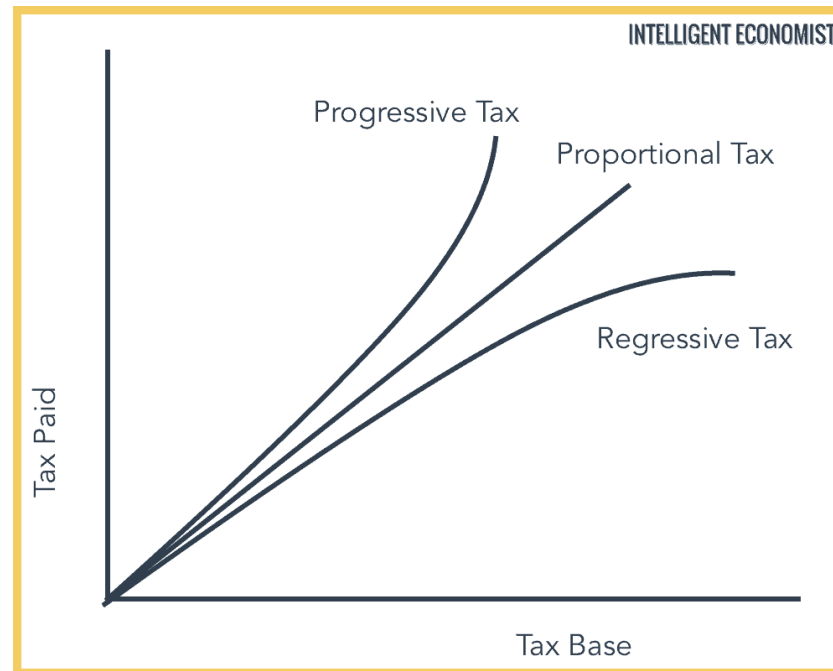
Tax revenues from individuals and corporations are used to finance government activities such as:

- Public schools and hospitals
- Roads and other infrastructure
- Assistance programs



# Types of Tax Formulas

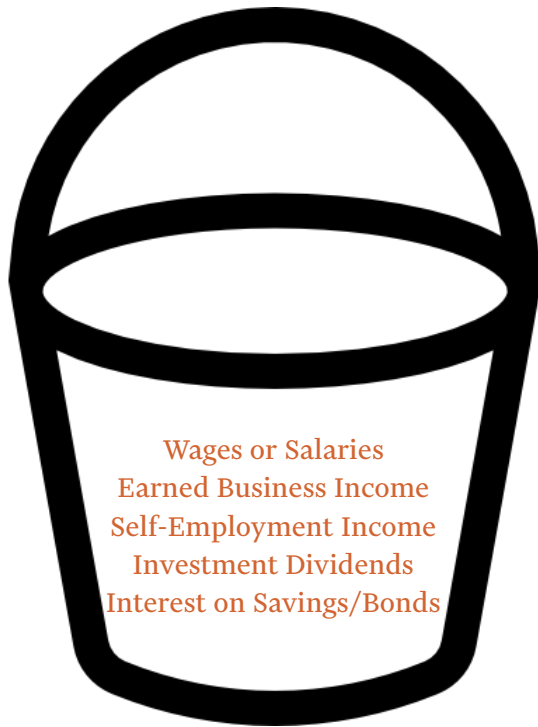
*The amount you pay is based in part on the tax formula used, which is often tied to who is best able to pay.*



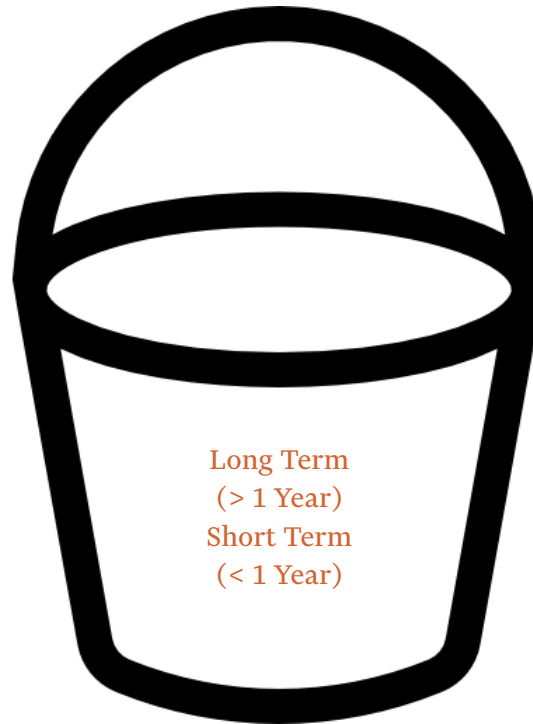
The U.S. uses a progressive tax system for federal income taxes, but it varies at the state level. Some states don't have an income tax. Others use a flat tax.

# What is Considered Income?

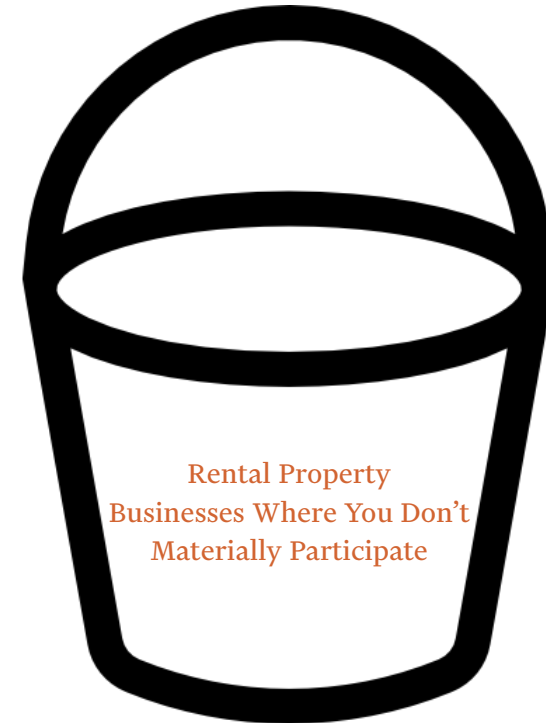
*Income is any money you receive for providing a good or service, or through investing.*



Ordinary



Capital Gains



Passive Income

# Overview of U.S. Progressive Income Tax

*A lower tax rate is imposed on low-income earners compared to those with higher income based on different tax brackets.*

## Marginal Tax Rate Increases with Increasing Income

2020 Federal Tax Rates for Individuals

Marginal Tax Rate	37% of this amount	\$518,400+	Taxable Income
	35% of this amount	\$518,400	
	32% of this amount	\$207,350	
	24% of this amount	\$163,300	
	22% of this amount	\$85,525	
	12% of this amount	\$40,125	
	10% of this amount	\$9,875	
		\$0	

# How are Capital Gains Taxed?

*The value of your investments will go up and down. If you sell an asset for more than what you initially invested, you will have either a short- or long-term capital gain.*

Short-term capital gains (<1 year) are taxed as ordinary income.

Long-term capital gains are taxed at a lower rate than regular income (20% at highest bracket).

A capital loss is incurred when the investment declines in value.

If you sell at a loss, you can use the loss to offset any gains, up to \$3,000 per year.

# What is Income Tax Withholding?

*Your employer is generally required to withhold taxes from your paycheck.*

- The formula is based on your annual income. For bonuses, there's typically a special withholding at a flat rate.
- The information you provide on your W-4 Form impacts how much is withheld.
- Check your withholding amount: too little can lead to a tax bill or penalty, and too much can mean you won't have access to the money until you receive a tax refund.
- In addition to income taxes, businesses and individuals must also withhold payroll taxes (which fund Social Security and Medicare).

TAXES	
Description	
Fed Withholding	5,989.84
Fed MED/EE	309.54
Fed OASDI/EE	1,323.53
NY Withholding	1,407.62
NY NEW YORK Withhold	1.43



# What If I'm Self-Employed or a GIG Worker?

*The IRS knows that people who aren't working a traditional W-2 job might have irregular income, so they offer a little leeway.*

## Two Safe Harbors

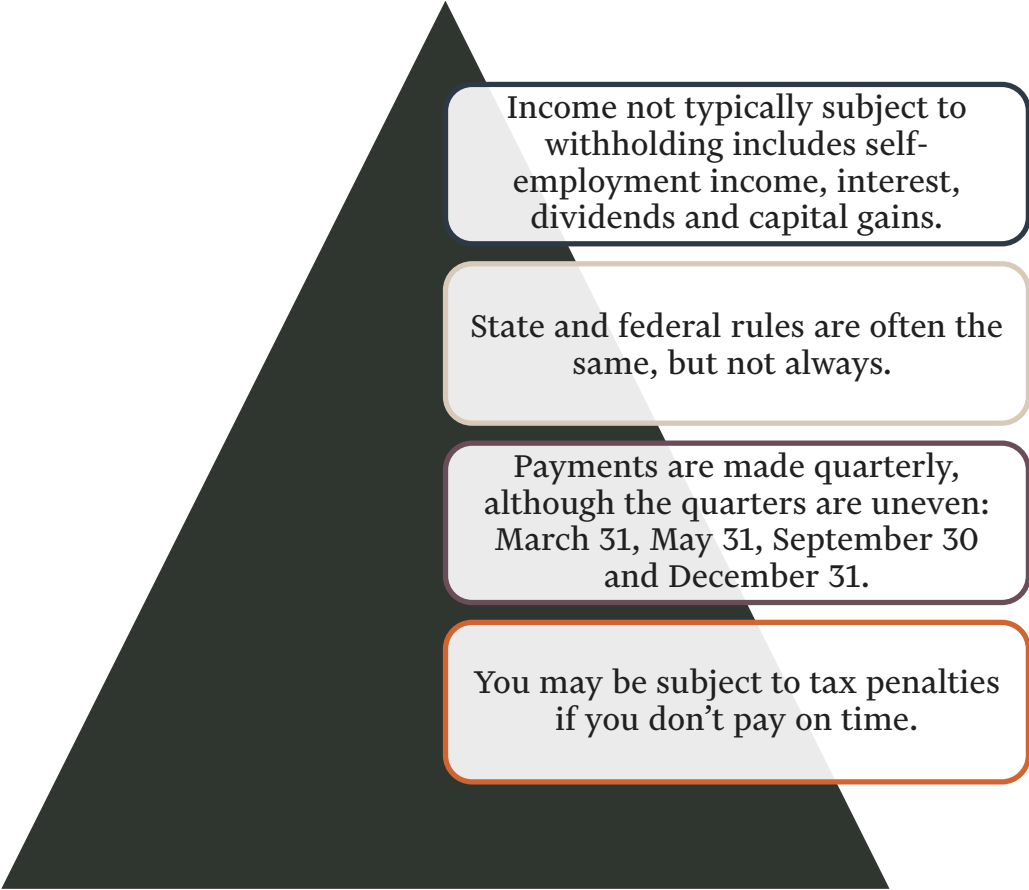
When you calculate all your taxes, you should pay 90% of current year tax due.

You can also pay 110% (100%) of prior year taxes.

If you meet either "safe harbor," you can pay the balance at the next April 15.

# Estimated Payments

*If you are not withholding enough, you may have to make estimated payments.*



Income not typically subject to withholding includes self-employment income, interest, dividends and capital gains.

State and federal rules are often the same, but not always.

Payments are made quarterly, although the quarters are uneven: March 31, May 31, September 30 and December 31.

You may be subject to tax penalties if you don't pay on time.

# Itemized Deductions Can Reduce Your Taxable Income

*Itemized deductions are various types of expenses that you incur throughout the year and are “tax deductible.” If the total amount of these expenses is greater than the standard deduction amount, you should itemize. Expenses that qualify for itemized deductions include:*



Property, State & Local  
Taxes



Home Mortgage  
Interest



Investment Interest  
Expense



Charitable Gifts



Medical Expenses

# Timing Your Income and Expenses

*Smart timing of certain income and expenses can reduce your tax liability.*

## Income

- Self-employment income
- Capital gains and losses
- Retirement plan contributions
- Retirement plan distributions

## Expenses

- State & local income tax payments
- Property taxes
- Business expenses
- Charitable gifts

# Timing Techniques to Minimize Taxes

*Postponing income and accelerating deductions are two ways to potentially reduce tax liabilities.*



- Deferring your income will put you in a lower tax bracket, which may lower your tax rate for that year.
- You may deduct interest on loans used for investment purposes against net investment income.
- You can also use long-term capital losses to offset long-term capital gains and carryover losses from prior years.
- Defer income into compensation plans or IRA.

# How Do You Invest?

*There are numerous vehicles you can use to invest your money.*

- Brokerage accounts
- IRAs
- Roth IRAs
- Annuities
- Life insurance
- 529 college savings plan
- 401(k) plans
- Partnerships
- Special tax-advantaged programs (e.g., Qualified Opportunity Zones)



# Your Choice of Investments Affects Taxation

*Different types of investments are taxed differently.*

Municipal bonds are often federally tax exempt.

With individual stocks, you don't realize any capital gains until you sell. They may also have tax-advantaged dividends or different yields.

When it comes to capital gains, separately managed accounts offer more tax benefits than mutual funds.



# What are Ad Valorem Taxes?

*Taxes paid on the assessed value of real property and major personal property. How much you pay depends on where you live.*

Ad Valorem Tax

Taxation based on  
Fair Value

such as...

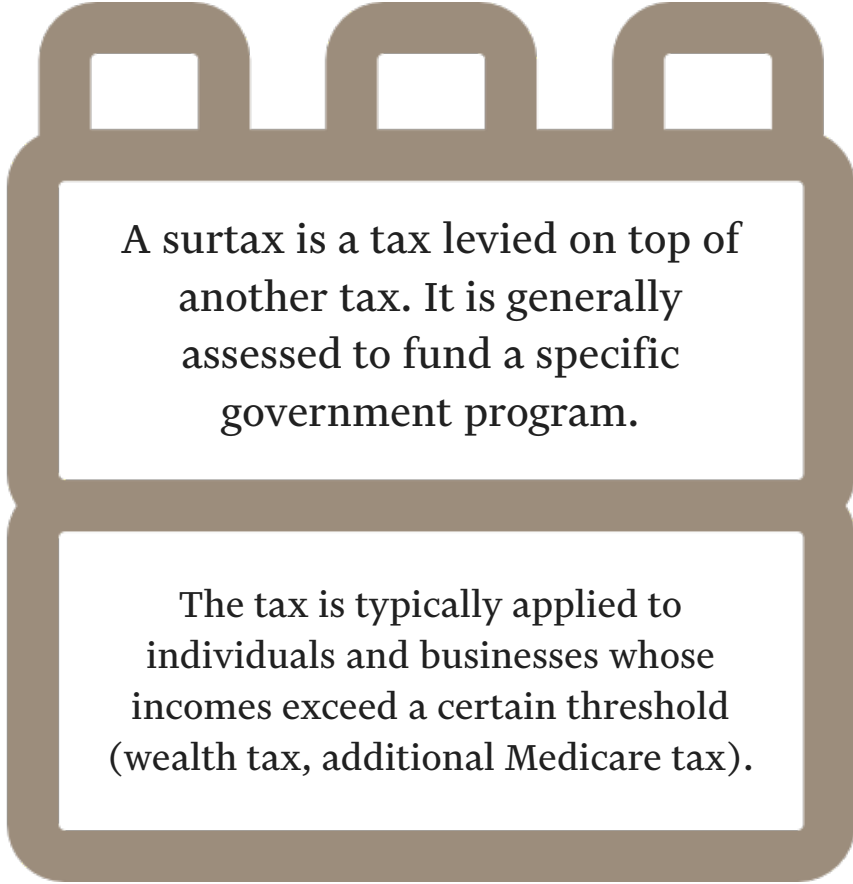
Real Estate

Vehicles

Personal Property



# What is a Surtax?



A surtax is a tax levied on top of another tax. It is generally assessed to fund a specific government program.

The tax is typically applied to individuals and businesses whose incomes exceed a certain threshold (wealth tax, additional Medicare tax).

# Gift and Estate Taxes

*These taxes apply to the transfer of wealth between generations.*



- Federal estate taxes are levied on assets in excess of \$11.4 million, but some states have their own estate taxes.
- Assets transferred to spouses are exempt from estate tax.
- Recipients of an estate's assets may be subject to inheritance tax.
- The annual gift exclusion is \$15,000 per recipient, with a lifetime exemption of \$11.4 million.
- Medical and educational expenses are excluded.

# Next Steps



**Use the information today to review your finances**



**Contact us for assistance with tax planning and preparation**



**Attend upcoming presentations to build your financial know-how**

# Questions

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