Welcome and Thank You!
Today’s Agenda

• Income Tax Overview
• Future Tax Considerations
• Case Study
• Questions
Income Tax Overview
Brief Overview

Important Calculations to Consider:

- **Total Income:**
  - Wages, Self-Employed Income, Interest/Dividends, Capital Gains, Rental Income, etc.

- **Adjusted Gross Income (AGI):**
  - Calculated using Total Income Reported minus Above-the-Line Deductions

- **Taxable Income:**
  - Calculated using AGI minus Itemized Deductions

- **Modified Adjusted Gross Income (MAGI):**
  - Calculated by adding certain deductions taken for AGI

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Examples of AGI Deductions

• Retirement plan contributions
• Claiming Dependents
• Alimony
• Self-employed health insurance payments
• One-half of any self-employment taxes paid
• Health savings account deductions
• Educator expenses
• Moving expenses
• Deductions for domestic production activities
Examples of Itemized Deductions

- Unreimbursed Medical and Dental Expenses
- Alimony
- Interest Expenses
- Taxes Paid
- Charitable Donations
- Casualty and Theft Losses
- Unreimbursed Job-Related Expenses
- Deductions for domestic production activities
Examples of MAGI Additions

- Student Loan Interest
- One-half self-employment tax
- Qualified tuition expenses
- Tuition and fees deduction
- Passive loss/gain
- IRA contributions, taxable social security payments
- Rental losses
- Any overall loss from a publicly traded partnership
Future Tax Considerations
Historical Tax Rates

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1980 Tax Structure Adjusted for Inflation

1980 Income | Tax Rate | 2015 Equivalent
--- | --- | ---
$0 | 0% | $0 | $9,768
$3,400 | 14% | $9,768 | $15,802
$5,500 | 16% | $15,802 | $21,835
$7,600 | 18% | $21,835 | $34,189
$11,900 | 21% | $34,189 | $45,968
$16,000 | 24% | $45,968 | $58,035
$20,200 | 28% | $58,035 | $70,676
$24,600 | 32% | $70,676 | $85,903
$29,900 | 37% | $85,903 | $101,130
$35,200 | 43% | $101,130 | $131,583
$45,800 | 49% | $131,583 | $172,380
$60,000 | 54% | $172,380 | $245,929
$85,600 | 59% | $245,929 | $314,306
$109,400 | 64% | $314,306 | $466,575
$162,400 | 68% | $466,575 | $618,844
$215,400 | 70% | $618,844 | and up

1980 income tax structure data from http://taxfoundation.org/article/us-federal-individual-income-tax-rates-history-1913-2013-nominal-and-inflation-adjusted-brackets. Tax brackets have been adjusted upwards using a CPI adjustment of 2.87 to adjust for inflation. This is for conceptual and informational use only. This does not represent a recommendation to buy a specific product or investment. McAdam, LLC is not a tax advisory firm thus this does not constitute tax advice. Any tax decisions should be made with your tax professionals.
Understanding Tax Diversification

AT/TN
- ROTH
- 529 Plan
- Munis
- SDLI

AT/TA
- CHECKING
- SAVINGS
- CD’s
- BROKERAGE

PT/TL
- 401(k) / 403(b)
- S.S. / Pension
- Trad. IRA

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Roth Conversion
Factors to Consider

- Amount to Convert
- Current Income Tax Bracket
- Future Income Tax Bracket
- Other Tax-Free Assets
- Other Taxable Accounts
- Time Horizon
- Legacy Effect

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Roth Conversions

Rules and Tax Consequences:

• 60 day rollover window
• Contributions are Taxable
  • Ex. Client A converts a $250,000 IRA to Roth IRA in 2015
  • $250,000 added to Client A’s Income
  • Federal Tax Rate: 32% at withdrawal
  • State Tax Rate: 5% at withdrawal
  • Rate of Return: 6.4% for 15 yrs

Managing taxes due
Based on the amount you wish to convert, you would owe approximately $75,704 in federal income taxes.

Based on the information you provided, you would owe approximately $12,500 in state income taxes the year that you convert.
Social Security
How is Social Security Taxed?

TAXATION OF SOCIAL SECURITY BENEFITS

Provisional Income = ½ Social Security Benefits + Modified Adjusted Gross Income

<table>
<thead>
<tr>
<th>SINGLE</th>
<th>MARRIED, FILING JOINTLY</th>
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<tbody>
<tr>
<td>$0-$25K</td>
<td>$0-$32K</td>
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<tr>
<td>Above $25K</td>
<td>Above $32K</td>
</tr>
<tr>
<td>$0-$25K</td>
<td>0% of Benefits are Taxable</td>
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<tr>
<td>$25K</td>
<td>0-50% of Benefits are Taxable</td>
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<tr>
<td>$34K</td>
<td>7-85% of Benefits are Taxable</td>
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Reference Understanding Social Security Retirement Benefits Black Rock brochure page 5
Required Minimum Distributions
Required Minimum Distributions

**What are RMDs?**
Minimum amounts that a retirement plan account owner must withdraw annually starting with the year he or she reaches 70.5 years of age.

**What accounts are exposed to RMDs?**
- All employer sponsored plans
  - 401(k) / 403(b)
  - 457 plans
  - Profit-sharing plans
- IRA-based plans
  - Traditional IRAs
  - SEP IRAs
  - SIMPLE IRAs

**RMD Calculation:**
All Qualified (pre-tax) Dollars
RMD Factor (based on life expectancy)

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Case Study
John Smith, Scenario A

- **Age:** 55
- **Annual Income:** $175,000
- **Pre-Tax Account Balance at 55:** $500,000
- **Annual Rate of Return:** 6%
- **Maximum contribution to Pre-Tax account:** $24,000
- **Company Match:** 100% of John’s contribution up to 3% of his annual income: $5,250
- **Pension and Social Security Income:** $50,000/year
- **Retirement Age:** 70
John Smith, Scenario B

• Age: 55
• Annual Income: $175,000
• Pre-Tax Account Balance at 55: $500,000
• Annual Rate of Return: 6%
• 6% contribution to Pre-Tax account: $10,500
• Company Match: 100% of John’s contribution up to 3% of his annual income: $5,250
• Pension and Social Security Income: $50,000/year
• Retirement Age: 70
John Smith

**Scenario A**
Total Taxes Paid at age 90: $685,000

**Scenario B**
Total Taxes Paid at age 90: $555,000

**Total Tax Savings**
$130,000
($56,700)
$73,300

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Thank You!
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