

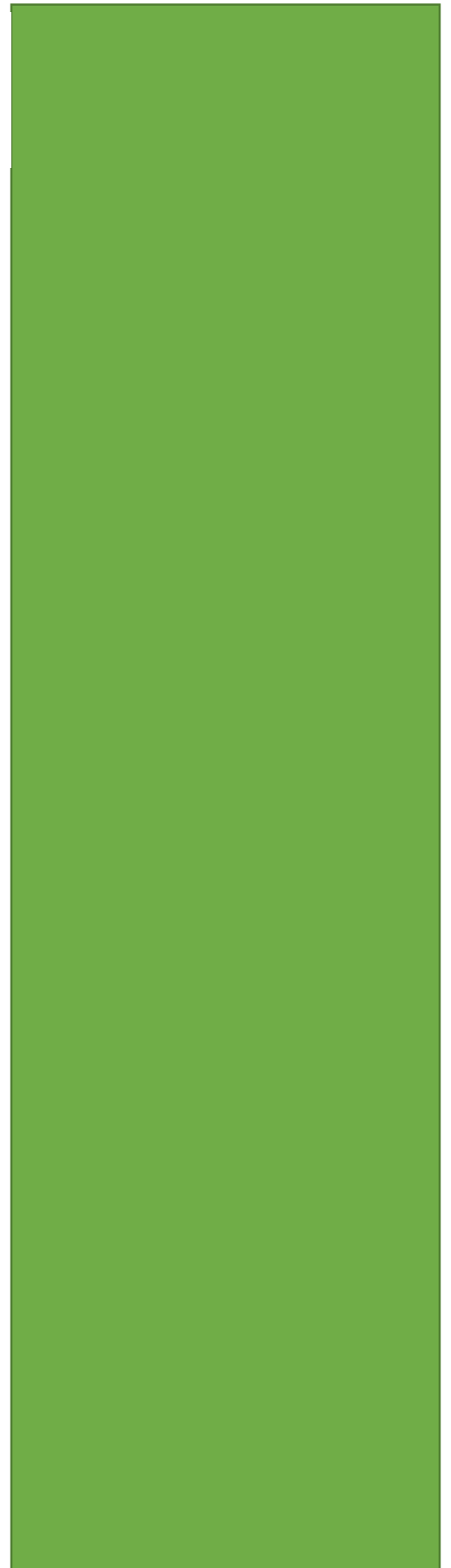
# Tax Planning Basics



# PREFACE

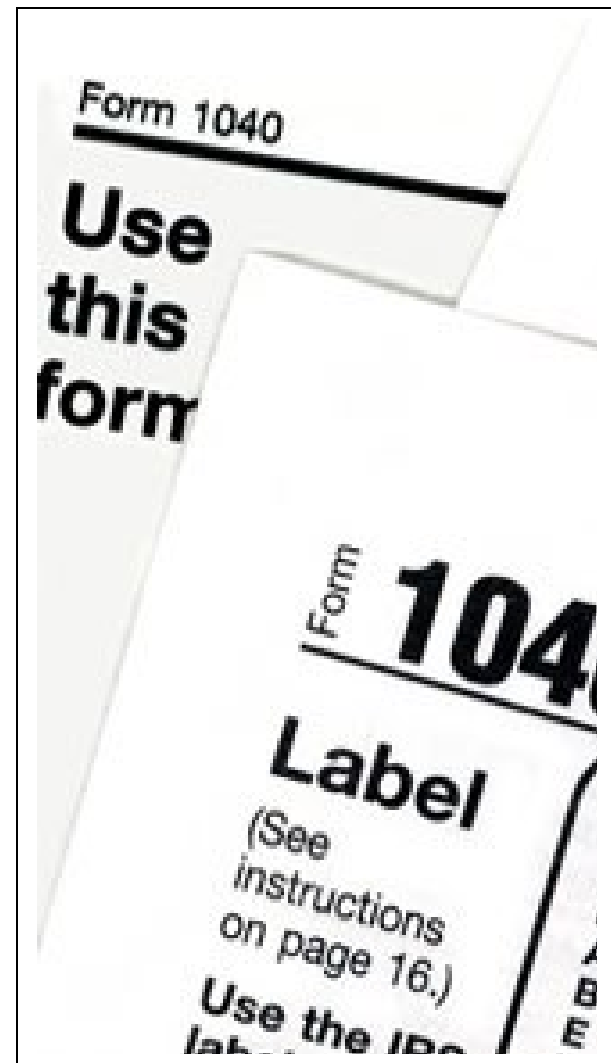
---

Income tax planning is complicated. This booklet is designed to give you an overview of some steps you should consider in order to keep more of what you earn and more of what your investments earn. We have provided links to other resources for those who have an interest in a deeper understanding of the ideas presented here.



# WORK IS TAXED AT A HIGHER RATE THAN WEALTH

Here are the income tax rates you pay on income earned from your job, pension income, interest paid on bonds, CDs and savings accounts, IRA or 401k distributions and the taxable portion of any social security benefits.



Tax Rate	Taxable Income (Single)	Taxable Income (Joint)
10%	Up to \$11,000	Up to \$22,000
12%	\$11,000 to \$44,725	\$22,000 to \$89,450
22%	\$44,725 to \$95,375	\$89,450 to \$190,750
24%	\$95,375 to \$182,100	\$190,750 to \$364,200
32%	\$182,100 to \$231,250	\$364,200 to \$462,500
35%	\$231,250 to \$578,125	\$462,500 to \$693,750
37%	Over \$578,125	Over \$693,750

## 2023 INCOME TAX RATES

These are the current US income tax rates for single filers and married couples filing jointly

# INVESTMENT INCOME TAXED AT LOWER RATES

These preferential rates apply to long-term capital gains on stocks, investment property, collectibles, and certain preferred stock dividends. The tax rate on municipal bond interest is 0%

Note: for joint filers \$83,350 of income is taxed at up to 12% yet long-term capital gains of the same amount are taxed at 0%.

The lesson here is moving away from earned income to unearned income reduces the tax drag of building wealth.



## 2023 LONG-TERM CAPITAL GAINS TAX RATES

These are the rates you pay on unearned income produced by your wealth. **Note: There is a 3.8% surtax on investment income from all taxable sources for single filers with modified adjusted gross income over \$200,000, and over \$250,000 for joint filers**

Tax Rate	Taxable Income (Single)	Taxable Income (Joint)
0%	Up to \$44,625	Up to \$89,250
15%	\$44,625 to \$492,300	\$89,250 to \$553,850
20%	Over \$492,300	Over \$553,850
25%	Rate for recapture of depreciation on real estate	
28%	Applies to collectibles such as art and antiques	

# UNDERSTANDING MARGINAL INCOME TAX RATES

---

- Here are 2023 tax rates adjusted for those claiming the standard deduction, showing gross income ranges.
- Your marginal tax rate is the rate you would pay on the next \$1 you earn.



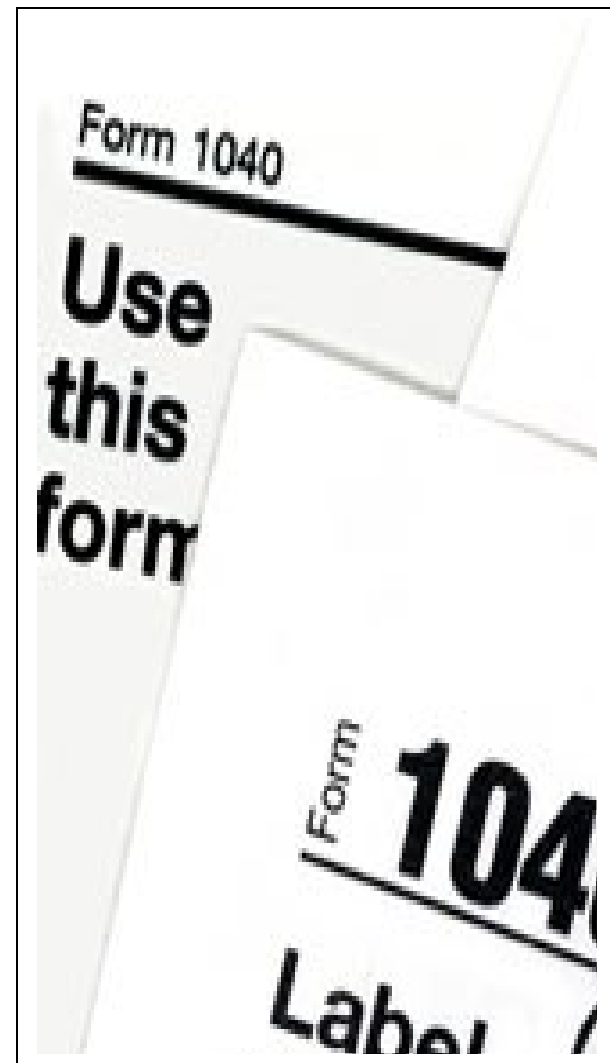
Rates based on gross income when claiming a standard deduction

Tax Rate	Gross Income with standard deduction (Single)	Gross Income with standard deduction (Joint)
0%	Up to \$13,850	Up to \$27,700
10%	\$13,851 to \$24,850	\$27,701 to \$49,700
12%	\$24,851 to \$58,575	\$49,701 to \$117,150
22%	\$58,576 to \$109,225	\$117,151 to \$218,450
24%	\$109,226 to \$195,950	\$218,451 to \$391,900
32%	\$195,951 to \$245,100	\$391,901 to \$490,200
35%	\$245,101 to \$591,975	\$490,201 to \$721,450
37%	Over \$594,975	Over \$721,450

# STEP 1: REDUCE EARNED INCOME

---

- Contribute to a tax-preferred account like your IRA, 401k, or 403b if you expect to be in a lower bracket later in life.
- Pay the taxes this year but move savings to a [Roth IRA](#) or [Roth 401k](#) where the assets will never be taxed again if you are in the 12% or lower tax bracket.
- Use a [529 plan](#) to save for education expenses.
- Use municipal bond funds and municipal bond money market funds, and [preferred stocks](#) for fixed income investments not held in a tax protected account.
- Start your own business or get a side-gig so you qualify for the [Qualified Business Income](#) tax reduction.
- If you can purchase a qualified high deductible healthcare plan, open and contribute to a [Health Savings Account](#).
- If you are 70 1/2 or older make [charitable contributions directly from your IRA](#).
- Use a [Donor Advised Fund](#) to aggregate multiple years charitable donations to crack to itemized deduction threshold.
- Use employee benefits like a [Flexible Spending Account](#) for childcare and health care

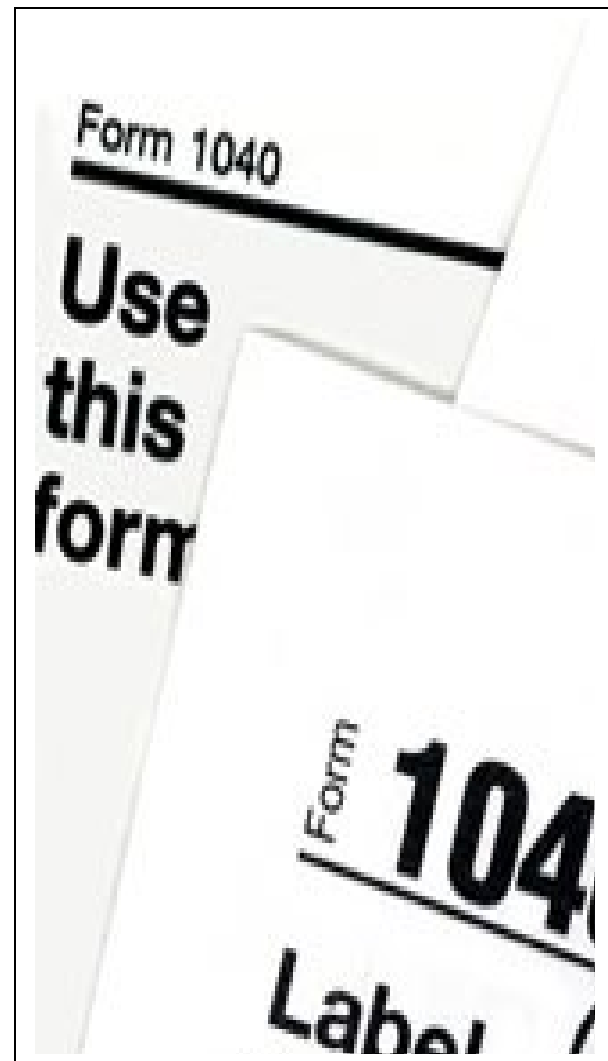


## STEP 2: LOCATE INVESTMENTS IN THE RIGHT ACCOUNT

---

Use tax-efficient or tax-preferred investments in taxable accounts. (growth stocks, ETFs, preferred stocks, and municipal bonds)

- Use tax-preferred accounts for investments that produce non-tax preferred income; taxable bonds go in IRA accounts.
- Take advantage of tax-free growth and distributions from HSA and 529 plan accounts.
- Roth savings vehicles are an attractive way to generate tax-free income throughout your life.



# STEP 3: KEEP UP WITH TAX LAW CHANGES

---

- SECURE Act has gutted the stretch IRA for many beneficiaries.
- SECURE Act raised the age for mandatory minimum IRA distributions to the year you reach age 72.
- Single filers can now deduct up to \$300 or \$600 for joint filers in cash contributions to a qualified charity. You do not have to itemize to get this deduction

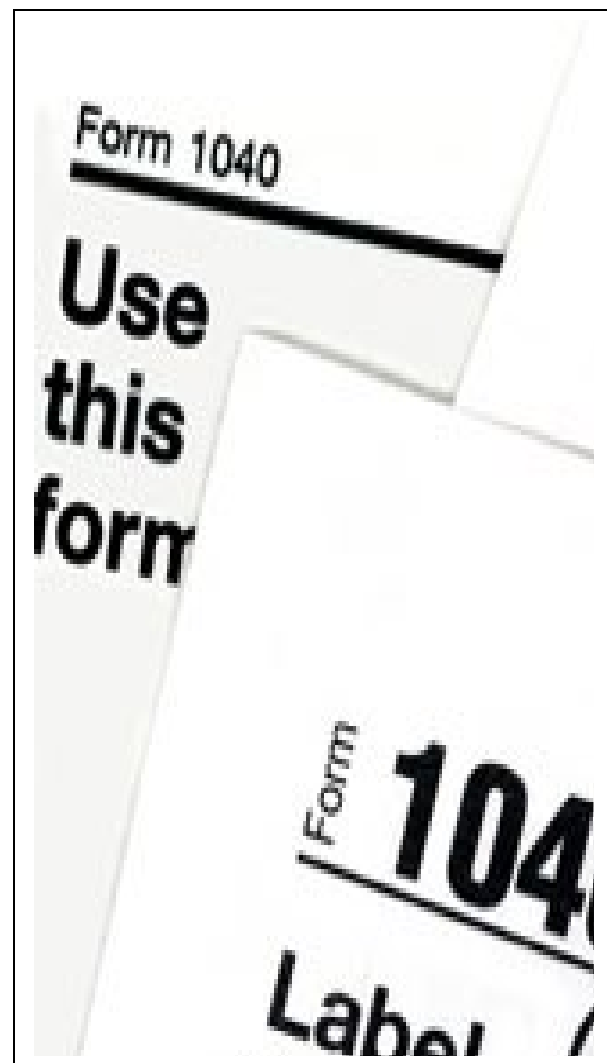




# STEP 4: START EARLY

---

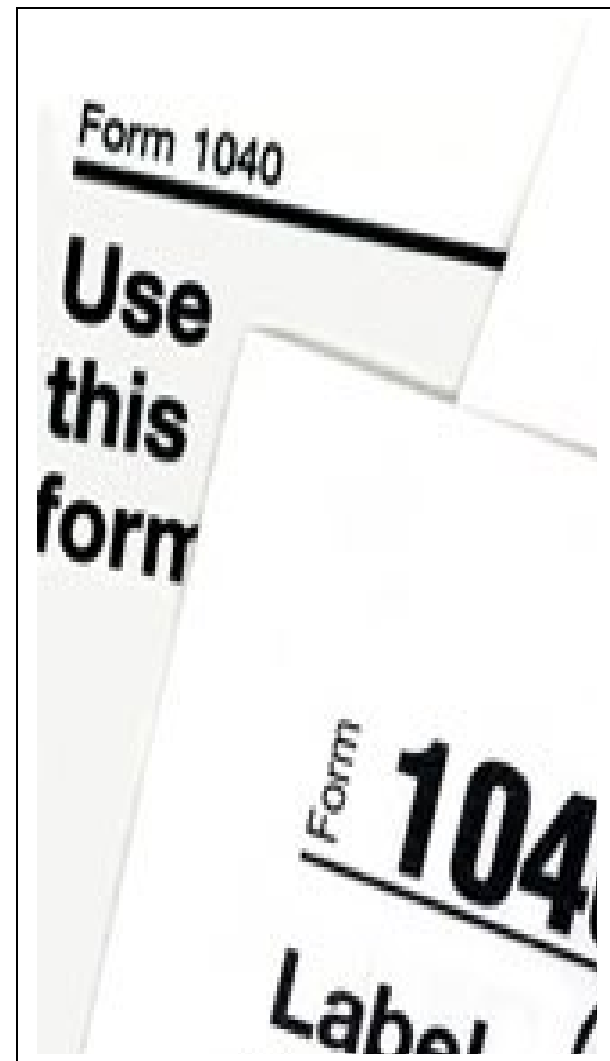
You cannot do effective income tax planning in December. Income tax planning is a year-round endeavor. The earlier you start the better your results will be.



# STEP 5: DO THE SIMPLE THINGS

---

- Every year look to offset capital gains with capital losses.
- Make charitable contributions with shares of appreciated securities.
- If you are in the 12% tax bracket, fill it to the top with Roth IRA conversions.
- If you are in the 12% or less tax bracket, make Roth IRA contributions rather than Traditional IRA contributions
- A Roth IRA conversion strategy at higher brackets may make sense, but requires an in-depth analysis
- Keep up with items that can be deducted from taxable income.
- If you have more assets than you need, use the annual gift-tax exclusion to transfer cash to your heirs.
- Set up accounts for your children or grandchildren. They can have up to \$1,100 of unearned income each year with no income tax.



# WE ARE HERE IF YOU NEED HELP

---

Income tax planning is complicated. It is also one of the best ways to increase your family's wealth. To learn how tax planning and a financial plan can turbo-charge your journey to financial independence, visit us at:

[www.oakadvisors.com](http://www.oakadvisors.com)

