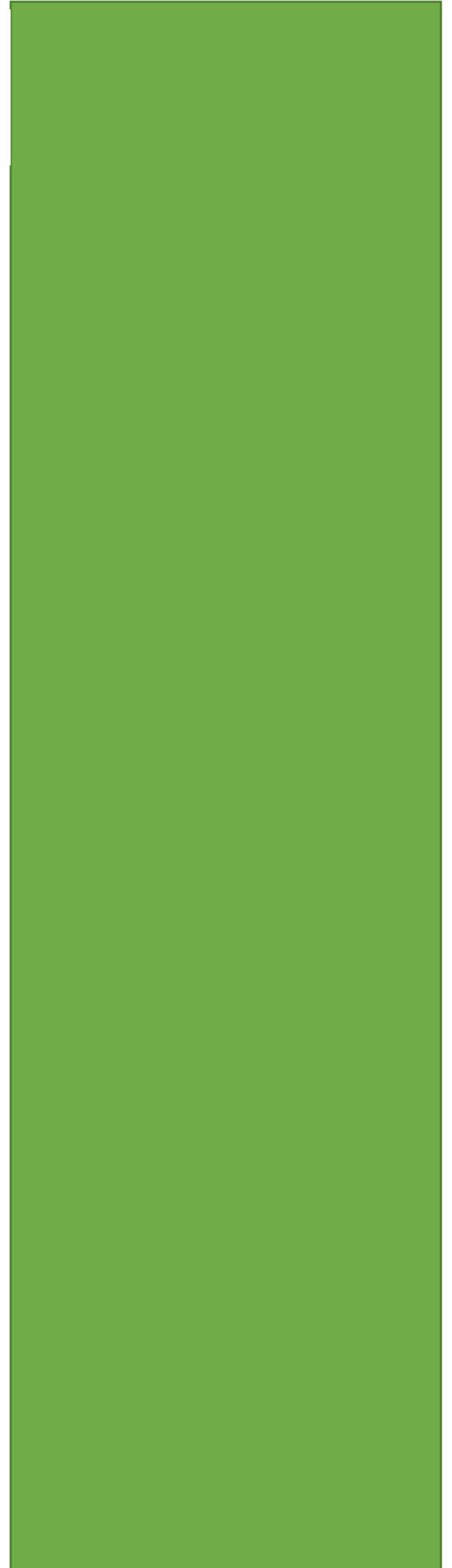


Tax Planning Basics



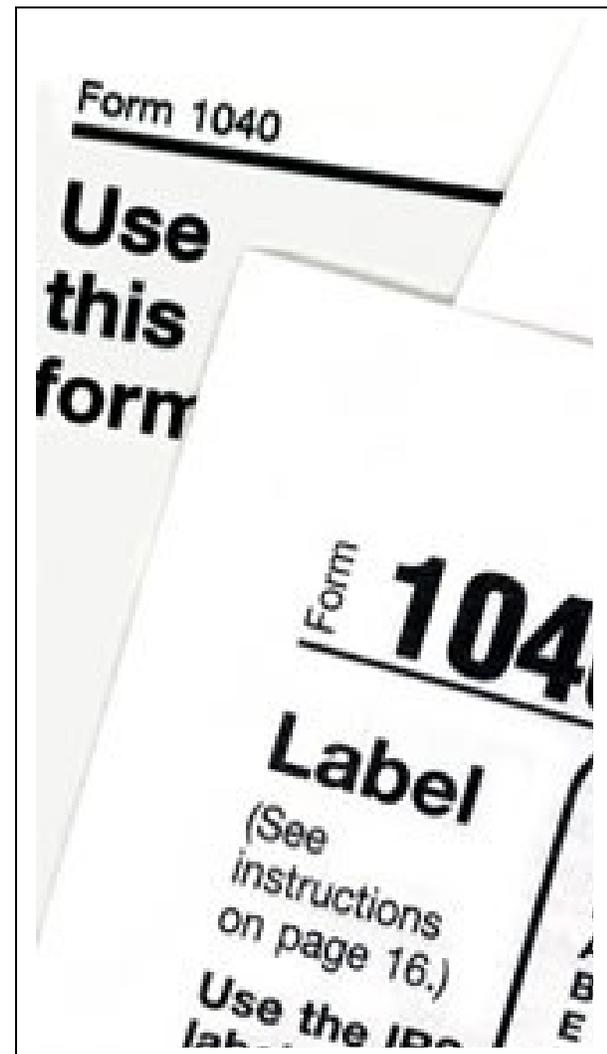
PREFACE

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 \$9,8750	Up to \$19,750
12%	\$9,876 to \$40,125	\$19,751 to \$80,250
22%	\$40,126 to \$85,525	\$80,251 to \$171,050
24%	\$85,526 to \$163,300	\$171,050 to \$326,600
32%	\$163,301 to \$207,350	\$326,601 to \$414,700
35%	\$207,351 to \$518,400	\$414,701 to \$622,050
37%	Over \$518,400	Over \$622,050

2020 INCOME TAX RATES

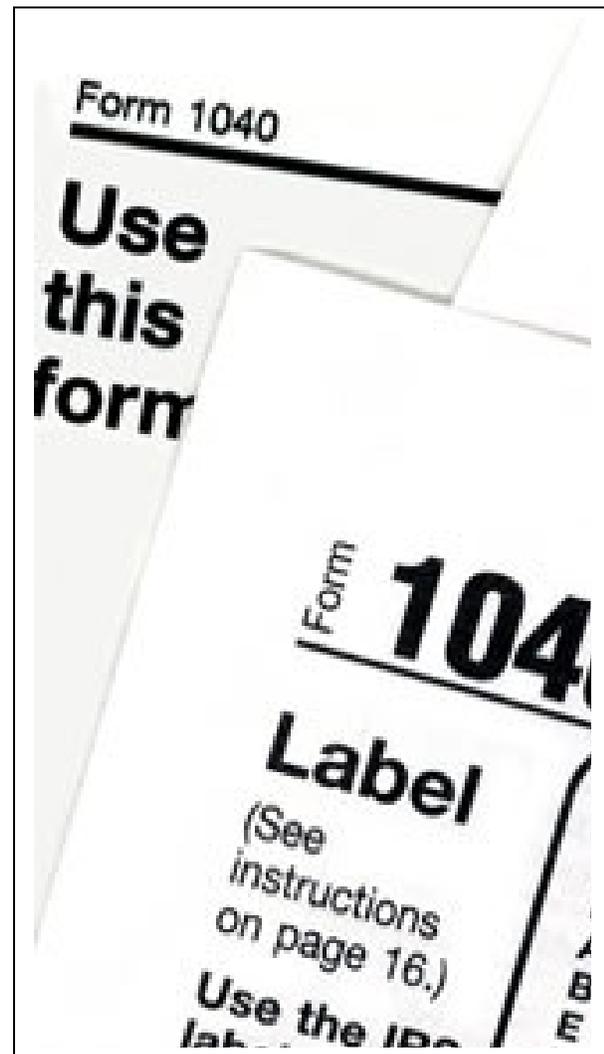
These are the current US income tax rates for individuals and married couples filing jointly

WORK IS TAXED AT A HIGHER RATE THAN WEALTH

These preferential rates apply to 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 \$80,000 of income is taxed at 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.



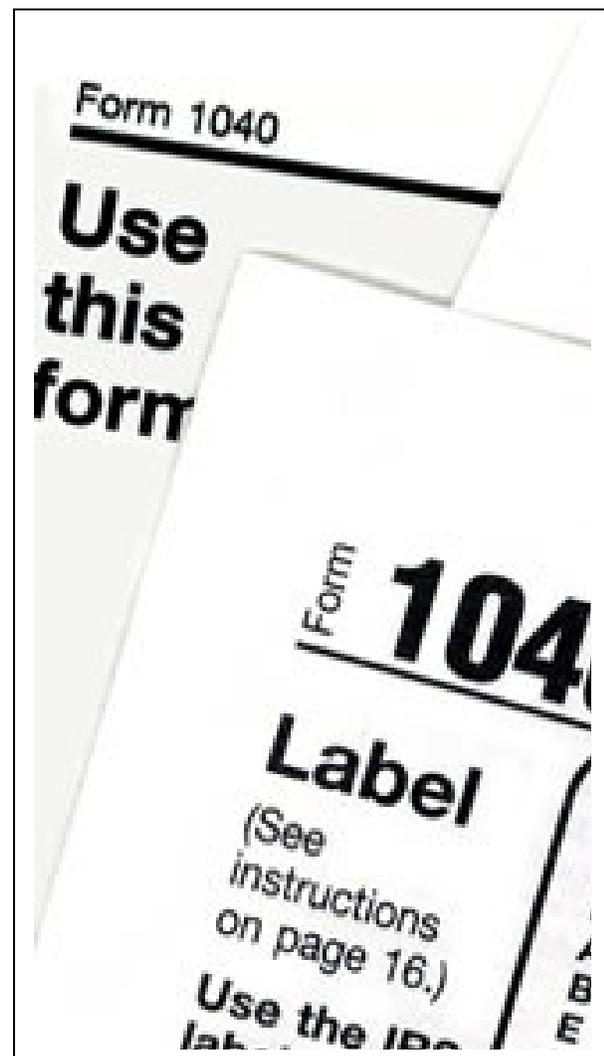
Tax Rate	Taxable Income (Single)	Taxable Income (Joint)
0%	Up to \$40,000	Up to \$80,000
15%	\$40,001 to \$441,450	\$80,001 to \$496,600
20%	Over \$441,450	Over \$496,600
25%	Rate for recapture of depreciation on real estate	
28%	Applies to collectibles such as art and antiques	

2020 INCOME TAX RATES

These are the rates you pay on unearned income produced by your wealth

UNDERSTANDING MARGINAL INCOME TAX RATES

- Here are 2020 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.

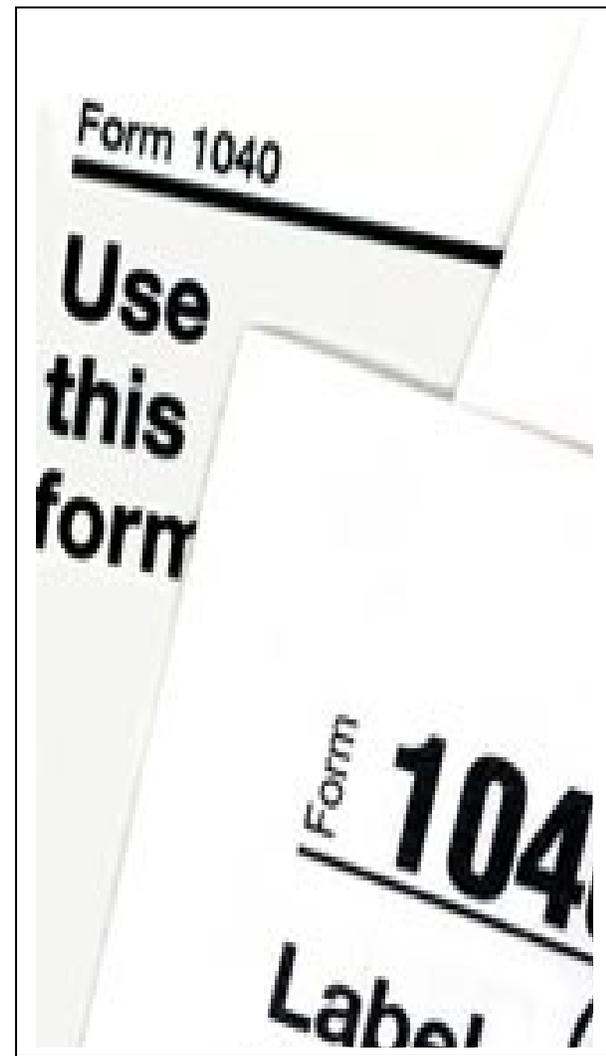


Rates based on gross income when claiming a standard deduction

Tax Rate	Gross Income with standard deduction (Single)	Gross Income with standard deduction (Joint)
0%	\$12,400	\$24,800
10%	Up to \$22,275	Up to \$44,550
12%	\$22,275 to \$52,525	\$44,500 to \$105,050
22%	\$52,525 to \$97,925	\$105,050 to \$195,850
24%	\$97,925 to \$175,700	\$195,850 to \$351,400
32%	\$175,700 to \$219,750	\$351,400 to \$439,500
35%	\$219,750 to \$530,800	\$439,500 to \$646,850

STEP 1: REDUCE EARNED INCOME

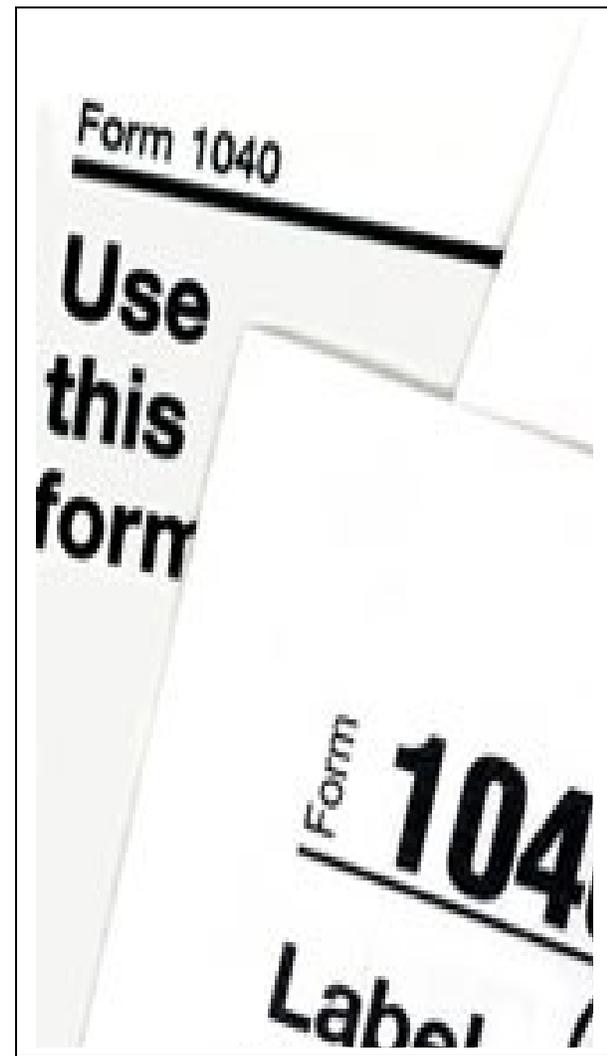
- Contribute to a tax-preferred account like your IRA, 401k, or 403b. If you expect to be in a lower bracket later in life.
- Suck it up pay the taxes this year but move savings to a [Roth IRA or Roth 401k](#) where the assets will never be taxed again.
- Use a [529 plan](#) to save for education expenses.
- 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 ½ make [charitable contributions directly from your IRA](#).
- Be realistic. If you can pay taxes at 10% to 12% rates you are doing well, fill-up those brackets.



STEP 2: LOCATE INVESTMENTS IN THE RIGHT ACCOUNT

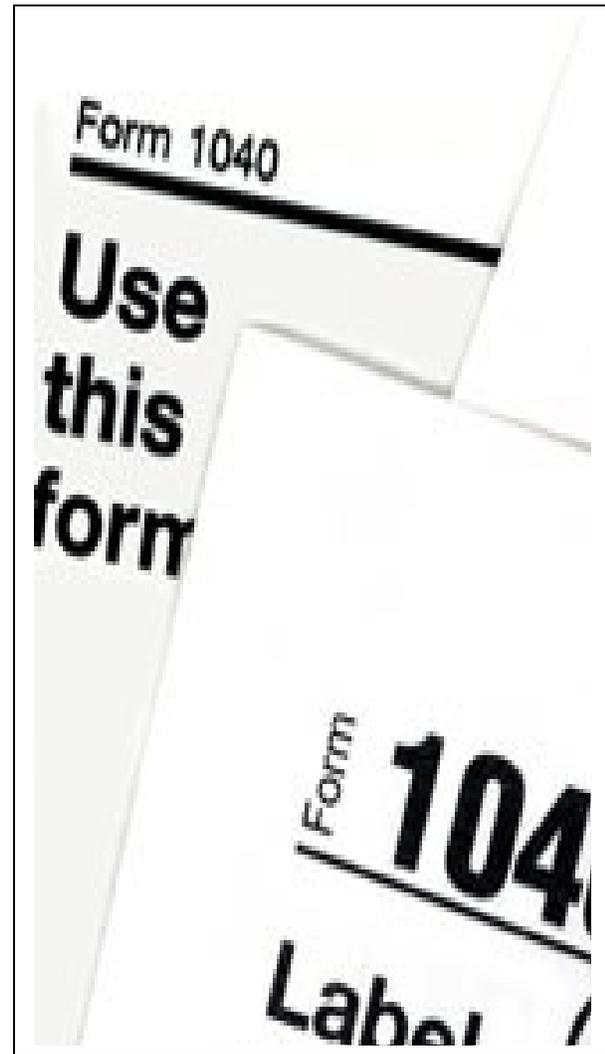
Use tax-efficient or tax-preferred investments in taxable accounts. (growth stocks, ETFs, preferred stocks, and municipal bonds)

- 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 a must.



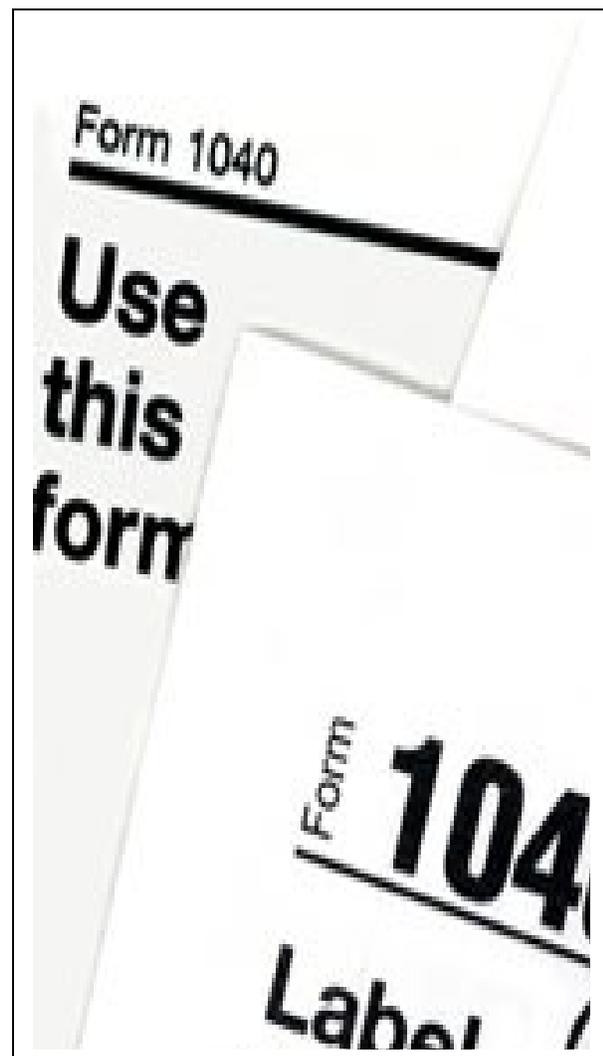
STEP 3: KEEP UP WITH TAX LAW CHANGES

- [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.



STEP 4: START EARLY

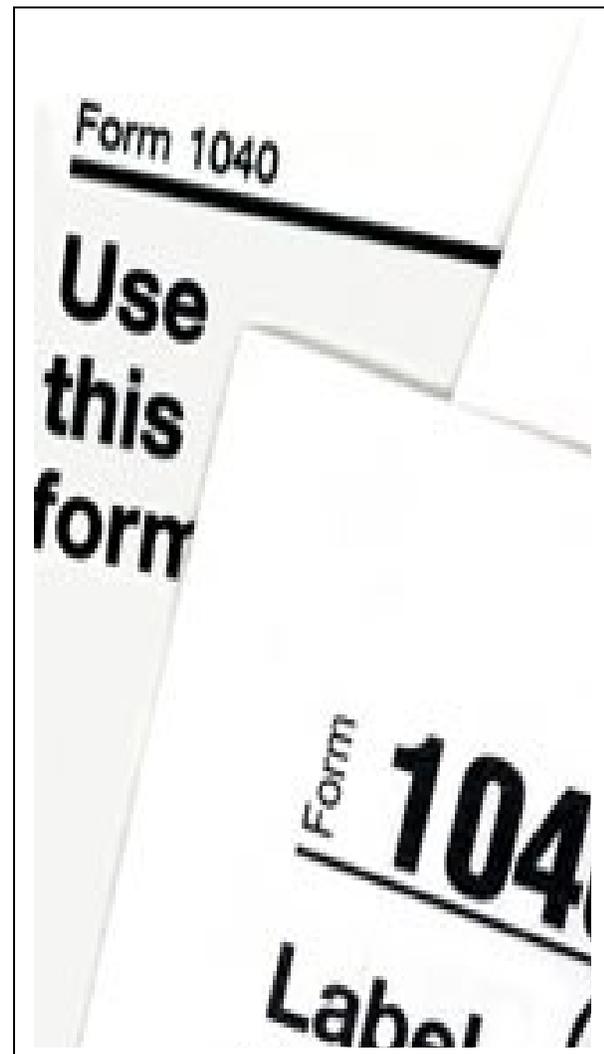
You cannot do effective income tax planning in December. Income tax planning is a year-round endeavor. The earlier you start the better your results will be.



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.
- 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.

[FOR A LINE BY LINE EXPLANATION OF YOUR INCOME TAX FOR LOOK HERE](#)



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

