



Prepared by:

Tiffany Lindsey

Phone: 360-722-7889

Email: info@birdseyefinancial.com

Prepared for:

John (SAMPLE) Smith & Jane Smith

Monday, 22 April, 2019

Assumptions

Tax Year	2019
Standard Deduction	\$24,400
Personal Exemption	\$0
Additional Standard Deduction for Over 65	\$1,300

About this report:

The Tax Cuts and Jobs Act of 2017 made sweeping changes to the federal tax system. This report has been updated to incorporate the changes that impact personal taxes. The report does not incorporate many of the changes related to businesses, so business owners are highly advised to seek the counsel of a qualified tax advisor.

Although the new law simplifies some elements of the tax system, the interactions between different types of income and deductions still create an environment in which the additional tax on a withdrawal from a retirement account, or the impact of harvesting a loss or gain in an investment account, may be substantially different than the taxpayer would expect.

Most tax preparation and tax planning software is a scenario-by-scenario look at the result of a given set of inputs, determining the tax due for only that specific set of inputs and not for the universe of other options that were available to the taxpayer.

Tax Clarity® identifies two core types of income and deductions over which most taxpayers have at least some measure of control. These are ordinary income¹ and capital gains². It seeks to help a taxpayer answer a simple question: How much of each additional dollar is lost to federal income tax?

Tax Clarity® is intended to handle the majority of income types and tax results; however, it is not designed to be a tax preparation engine or provide specific tax advice. The goal of this report is to provide a starting point for discussion of tax-efficient savings and distribution of retirement assets and is not a substitute for the advice of a qualified CPA, enrolled agent, or attorney.

Income Tax Brackets

Taxable Income	Tax Rate
\$0	10%
\$19,400	12%
\$78,950	22%
\$168,400	24%
\$321,450	32%
\$408,200	35%
\$612,350	37%

Capital Gains Tax Brackets

Taxable Income	Capital Gains
\$0	0%
\$78,750	15%
\$488,850	20%

Medicare Monthly Premium Increase

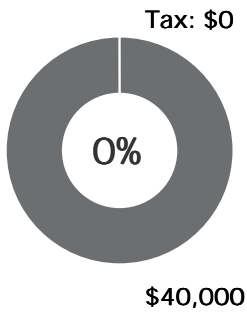
Income	Part B	Part D
\$85,000	\$54.10	\$12.40
\$107,000	\$135.40	\$31.90
\$133,500	\$216.70	\$51.40
\$160,000	\$297.90	\$70.90
\$500,000	\$325.00	\$77.40

*1. Ordinary income in Tax Clarity® includes IRA withdrawals, earned income, interest income, and short term capital gains. It does not include taxable Social Security benefits.

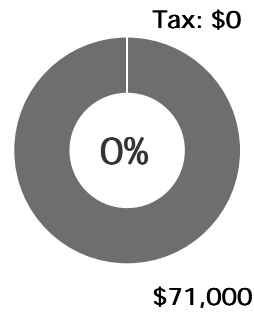
*2. Capital gains include net long term capital gains and qualified dividends.

Federal Tax Comparison

Base Case



Scenario 1



Considerations:

This report outlines two different tax scenarios. The "Base Case" is typically entered as where you stand today. Scenario 1 is a possible alternative course of action.

The comparison above shows the estimated total Federal Income Tax due in both scenarios and outlines the percentage of the total income that is lost to Federal Income Tax. In many financial planning situations, choosing to incur tax sooner rather than later can maximize the lifetime financial impact. In other situations, deferring tax as long as possible creates the greatest long-term financial impact. These decisions should be driven primarily by your goals and needs and developed through an overall financial plan.

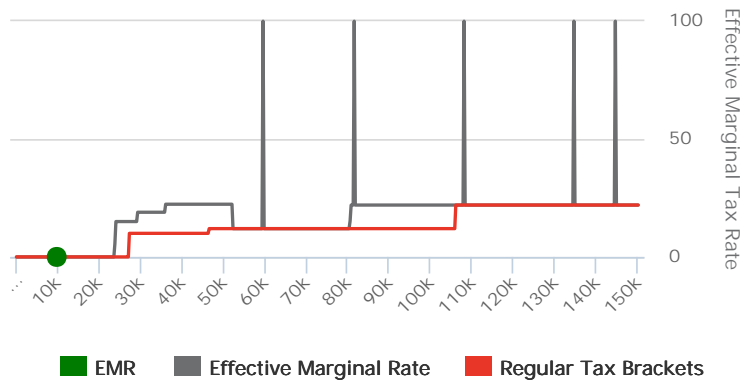
The comparison above quickly summarizes the "Big Picture" of total tax paid relative to income. In the following pages you will find a closer look at each Scenario that may help you to understand your tax situation relative to other options that may be available to you.

Tax Map

The Tax Maps below demonstrate the impact of each additional dollar recognized as income in the two broad categories of Ordinary Income and Capital Gains. Starting at the left of the graph and adding income as you move right, an additional dollar of ordinary income may create an additional tax that is greater than the marginal tax rate that dollar would normally face. This can occur because income that was non-taxable may become taxable, such as Social Security Benefits, or because tax credits or deductions that may have been available at lower levels of income are phased out, such as medical expenses. Seeing the Effective Marginal Rates you may pay for each additional dollar of income or capital gain harvested may help you make smarter decisions about when to realize that income or gain and allow you to create a more tax-efficient income.

Ordinary Income

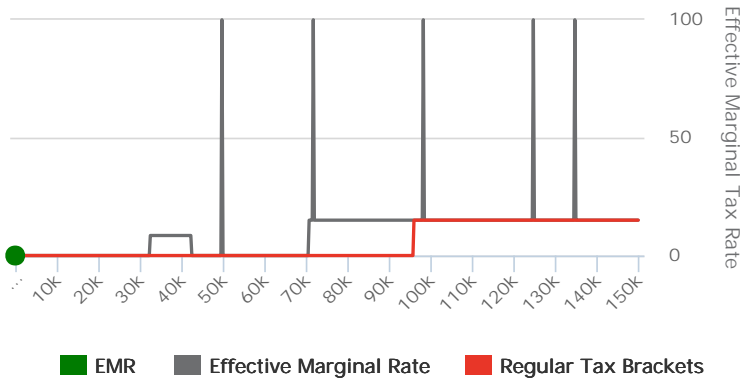
Top Marginal Rate	100%
Current Marginal Rate	0%
Ordinary Income to Next Marginal Rate	\$13,750.00
Next Marginal Rate	5.50%



Note: Effective Marginal Rates greater than 100% are displayed as 100%

Capital Gains and Qualified Dividends

Top Marginal Rate	100%
Current Marginal Rate	0%
Capital Gains to Next Marginal Rate	\$32,250
Next Marginal Rate	8.50%



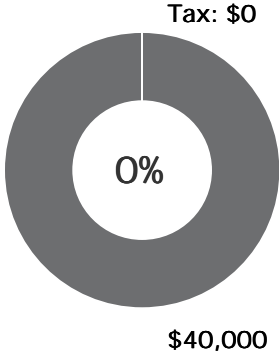
Note: Effective Marginal Rates greater than 100% are displayed as 100%

Base Case

Based on your age, filing status, and income, we are using a Standard Deduction of \$27,000

Given these basics, we estimate your total tax to be \$0 on Gross Income of \$40,000

This represents an effective tax rate of 0%, and an Effective Marginal Tax Rate of 0%

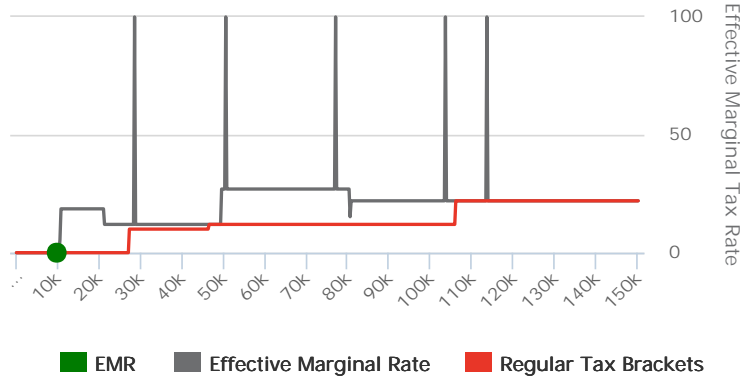


Your Effective tax rate is your total tax divided by your total income. Your Effective Marginal Tax rate is the tax rate paid on your last dollar of income. For many clients an understanding of Effective Marginal Tax rates may guide decisions such as where to withdraw money for an unplanned expense or whether to contribute more or less to a retirement account. While marginal rates are conceptually straightforward, the inclusion or exclusion of certain types of income, such as Social Security Benefits and an understanding of phase-outs of deductions etc. can create substantial distortions.

Scenario 1 - Tax Map

Ordinary Income

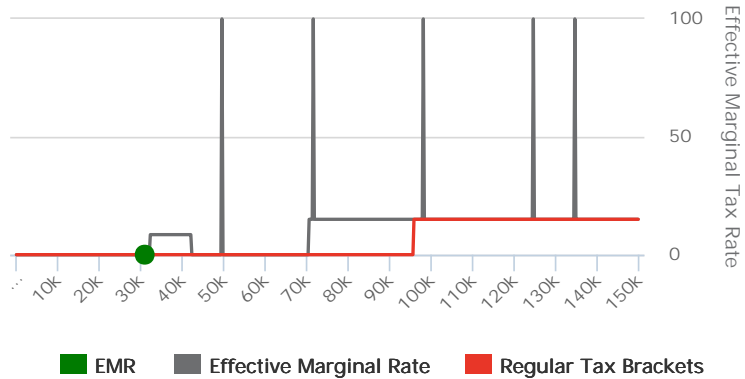
Top Marginal Rate	100%
Current Marginal Rate	0%
Ordinary Income to Next Marginal Rate	\$500.00
Next Marginal Rate	5.50%



Note: Effective Marginal Rates greater than 100% are displayed as 100%

Capital Gains and Qualified Dividends

Top Marginal Rate	100%
Current Marginal Rate	0%
Capital Gains to Next Marginal Rate	\$1,250
Next Marginal Rate	8.50%



Note: Effective Marginal Rates greater than 100% are displayed as 100%

Scenario 1

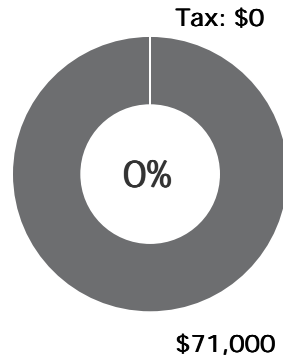
You've indicated that you have the following sources of income for 2019:

Long Term Capital Gains	\$31,000
Social Security	\$30,000
Tax Free Interest	\$0
Ordinary Income	\$10,000
Deductions against Ordinary Income	\$0

Based on your age, filing status, and income, we are using a Standard Deduction of \$27,000

Given these basics, we estimate your total tax to be \$0 on Gross Income of \$71,000

This represents an effective tax rate of 0%, and an Effective Marginal Tax Rate of 0%



Your Effective tax rate is your total tax divided by your total income. Your Effective Marginal Tax rate is the tax rate paid on your last dollar of income. For many clients an understanding of Effective Marginal Tax rates may guide decisions such as where to withdraw money for an unplanned expense or whether to contribute more or less to a retirement account. While marginal rates are conceptually straightforward, the inclusion or exclusion of certain types of income, such as Social Security Benefits and an understanding of phase-outs of deductions etc. can create substantial distortions.

Tools For Tax Control

Different account types, such as IRAs, Roth IRAs, and taxable accounts offer different tax treatment. Making sound decisions regarding which account types you save into prior to retirement can make a significant difference in when you are able to retire and what lifestyle you may be able to live in retirement. As you make retirement income decisions, some of the most impactful decisions you make will revolve around which assets you hold in which accounts, and which accounts to harvest from, in what order, and to what extent.

Account and Product Taxation

Taxable Accounts: Taxable accounts are effectively invisible from a tax perspective. The tax properties of interest or gains generated by the holdings in the account determine the tax impact. Good examples of taxable accounts are bank accounts or brokerage accounts.

Traditional or Rollover Individual Retirement Account (IRA) or Qualified Plans: Subject to certain income limits, money goes into these accounts pre-tax and becomes taxable as ordinary income when withdrawn. As a result, IRAs and Qualified Plans may offer an advantage in that gains or interest may be earned on money that would otherwise have been lost to tax up front or during deferral. Required Minimum Distributions generally begin to force withdrawals at age 70 ½.

Roth IRA Accounts: Funds that are placed in a Roth IRA have already been taxed, but once inside the Roth IRA are able to grow tax-free. Roth IRAs are not subject to Required Minimum Distributions during the original owner's lifetime, which may allow assets to compound tax-free over a longer period of time.

Product Level Taxation: Different retirement products also offer different tax treatment. For example, cash value life insurance and annuity products may offer tax deferral for assets that would otherwise be held in a Taxable account. Holding individual stocks or Exchange Traded Funds (ETFs) may offer greater tax deferral benefits than some mutual funds when held in taxable accounts.

The Importance of a Plan

Because significant differences exist in the taxation of the different account types and products you may own to create retirement income, and because a decision you make based on a single year has an effect on all future years, you should also consider an overall retirement income plan.

An overall retirement income plan can help you address:

- Which assets should be held in which account type?
- How much should you withdraw from each account each year?
- Should you move money from one account type to another?
- How much will you be forced to take in Required Minimum Distributions?
- Are there opportunities to reduce taxes on an annual basis with good strategy?

Completing an annual Tax Map will also help you manage your plan over time.

Disclosures

This report is not intended and should not be construed to provide tax or financial advice. This report generated by Tax Clarity is intended as an educational starting point from which the recipient may begin a conversation with a qualified tax professional, such as an attorney, CPA, or Enrolled Agent. The report may inform the creation of a financial plan or the purchase of a financial product, but the recipient of this report acknowledges that no action, whether account, product or otherwise related, should be taken solely on its contents.

Although substantial care has been taken in the development of the tax calculations that underlie this report, several simplifying assumptions are made, including but not limited to:

- 1) The "Saver's Credit" calculation is not processed independently for each member of a married couple. If a couple qualifies by AGI, it is assumed both members qualify.
- 2) This report considers long term capital gains and qualified dividends only and does not consider collectibles or other separate capital gains rates.
- 3) This report does not account for depreciation or depreciation recapture on rental properties.
- 4) The Qualified Business Income deduction assumes the full 20% deduction, not limited by the wages test or the capital asset test.
- 5) IRA deductions and above the line deductions are not limited by the software, but may be limited by IRS rules related to the type of plan, whether or not an individual participates in an employer-sponsored plan, and overall income.
- 6) Additional Medicare premiums are calculated as a tax in the current year. In reality, these premiums would be based off income from two years prior and would not be reflected on the tax return.
- 7) This report does not reflect the child tax credit phase out.
- 8) This report does not calculate the Additional Child Tax Credit (ACTC).

Use of the contents of this report is at the user's sole risk. This report is provided as is, without warranties, representations of conditions of any kind, either express or implied. Although significant effort has been taken to incorporate a variety of important tax provisions in the software and in this report, the software and resulting report omit many significant aspects of the tax code, which is why the advice of a qualified tax professional is highly recommended.

Appendix

Inputs

Tax Year	2019
Date of Birth	1/1/1948
Spouse's Date of Birth	1/1/1950
Number of Blind/Over 65	2
Inflation Rate	2.50%

	Base Case	Scenario
IRA Distributions	\$10,000	\$10,000
Net Long Term Capital Gains	\$0	\$31,000
Total Social Security	\$30,000	\$30,000

Calculated Fields	Base Case	Scenario
AGI (1040: line 7)	\$10,000	\$57,200
MAGI (For IRMAA)	\$10,000	\$57,200
Net Investment Income	\$0	\$31,000
Deductions and Exemptions	\$-27,000	\$-27,000
Provisional Income	\$25,000	\$56,000
Taxable Social Security (1040: line 5b)	\$0	\$16,200
0% Long Term Capital Gains	\$0	\$30,200
Total Tax	\$0	\$0