

Income Tax Review
for
John & Joan Smith

Our tax planning analysis section will summarize the tax consequences of our recommendations. The objective of our analysis is also to identify potential opportunities to reduce income, estate, and gift transfer tax by using deductions, taking advantage of tax credits, and utilizing exclusions. The following sections will show how you can reduce tax liability; however, we recommend that you visit with your accountant or accounting firm to adjust for any changes in tax legislature. Financial Life Advisors (FLA) is not an accounting firm.

Current Tax Observations

Category - MFJ	2016	2017	2018
Adjusted Gross Income (AGI)	\$ 190,255	\$238,560	\$205,917
Taxable Income	\$ 151,345	\$212,026	\$181,917
Capital Gains	\$ (3,000)	\$ 45,235	\$ 12,354
Total Tax	\$ 28,554	\$ 39,299	\$ 30,459
Nominal Marginal Tax Bracket	25%	28%	22%
LT Cap Gains & Qual. Div. Tax Bracket	15%	15%	15%
Charitable	\$ 15,000	\$ 3,000	\$ 3,000
Itemized/Standard \$	\$ 30,810	\$ 18,434	\$ 24,000

Notes : Capital losses used up and large capital gain realized in 2017.

Immediate Observations

- New tax laws in 2018 prevented itemizing deductions in 2018
- Charitable contributions should likely be made with appreciated stock
- Near the top of the 22% marginal Federal bracket

Investment Tax Planning

Index Investment Strategy

- Reduces portfolio turnover, both inside fund investments and from limited periodic rebalancing in your investment account(s)
- Generally, index investment strategies reduce expenses, such as trading costs, time spent completing advanced research, and the fee to the active fund manager(s)

Asset Location

- Targets shifting ordinary income and dividend income (especially non-qualified dividends) into tax-sheltered accounts.;see investment review for more information

Distribution Strategy

- Managing tax brackets and phaseouts annually can provide significant value by reducing taxation over time. You should accelerate income to at least the top of the 12% (15% after tax laws revert) tax bracket even if it means making extra IRA distributions. Avoid spikes by managing the capital gains needed to fund the home purchase and living expenses

Future Income Tax Considerations

Income Smoothing

- Once you run out of after-tax investments, you will need to withdraw your taxable IRA money, causing a spike in income level. By converting IRA accounts to Roth IRA accounts early on or by being more strategic with your distribution plan, you can lower lifetime taxation.

Aggressive Roth Conversions

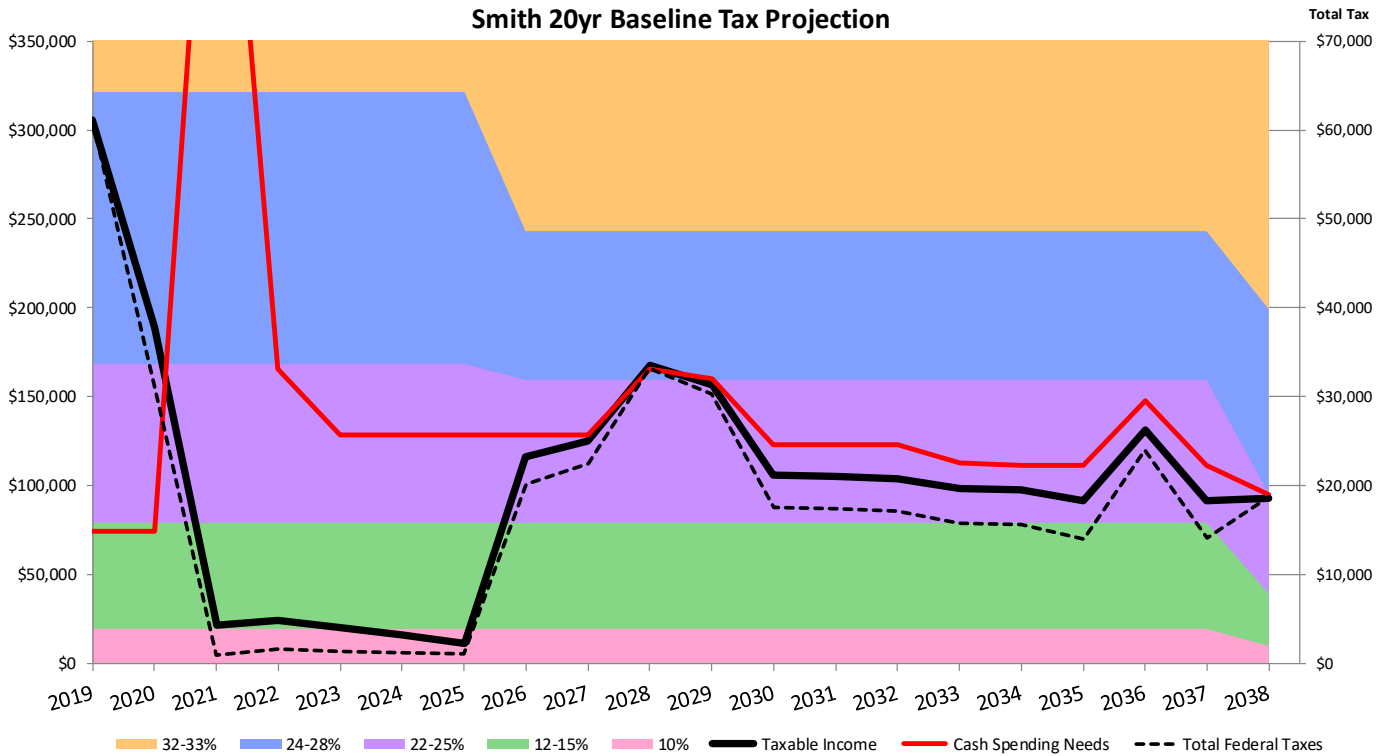
- With current tax code, you can pay a marginal tax rate of no more than 24% up to much higher limits (approx. \$321k) than pre-2018 tax laws. By moving IRA funds to Roth early in retirement, Social Security income is not scheduled to be fully taxed. Income tax rates would be cut dramatically in the future, and all investments assets would be tax free and be protected from creditors. It is important to manage investment income at these levels, as well, to avoid 3.8% Medicare Surcharges. Additionally, you need to navigate the impact that high income has on Medicare premiums starting two years prior to age 65.

The following table shows cumulative taxation and ending account balances from both the baseline (traditional distribution strategy) vs. aggressive Roth conversion simulations.

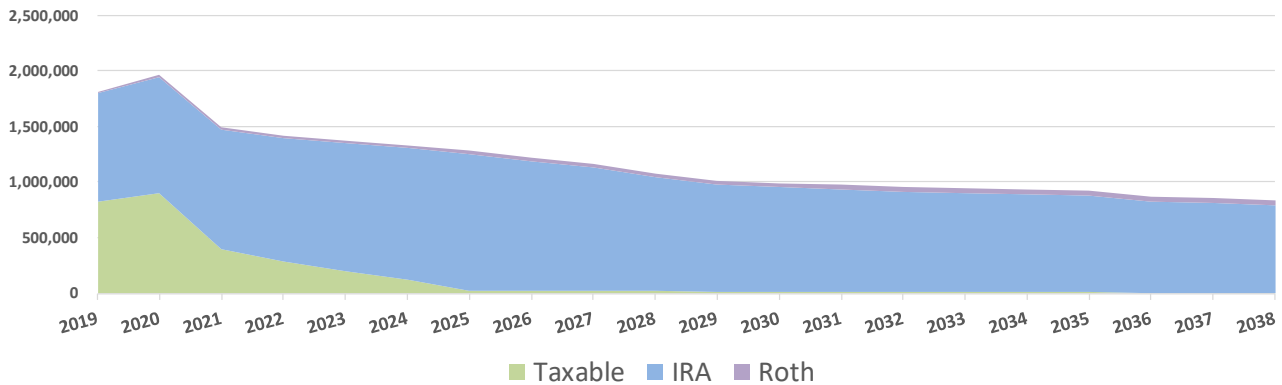
	Roth Conversions	vs. Baseline		Ending Values
Total Income	\$2,506,403	(\$58,505)	Taxable	\$0
Taxable Income	\$1,810,333	(\$260,891)	IRA	\$0
Total Federal Taxes	\$349,664	(\$8,912)	Roth	\$926,426
	Baseline			Ending Values
Total Income	\$2,564,908		Taxable	\$3,882
Taxable Income	\$2,071,224		IRA	\$785,893
Total Federal Taxes	\$358,576		Roth	\$44,515

\$834,290

Note*20yr tax projection (2018-2038) and Roth conversion simulation assume vacation home purchased with \$50k down with a 30yr 4% rate mortgage.



Account Balances Over Time



2019 Single Filing Status

- 10% on taxable income from \$0 to \$9,700, plus
- 12% on taxable income over \$9,700 to \$39,475, plus
- 22% on taxable income over \$39,475 to \$84,200, plus
- 24% on taxable income over \$84,200 to \$160,725, plus
- 32% on taxable income over \$160,725 to \$204,100, plus
- 35% on taxable income over \$204,100 to \$510,300, plus
- 37% on taxable income over \$510,300

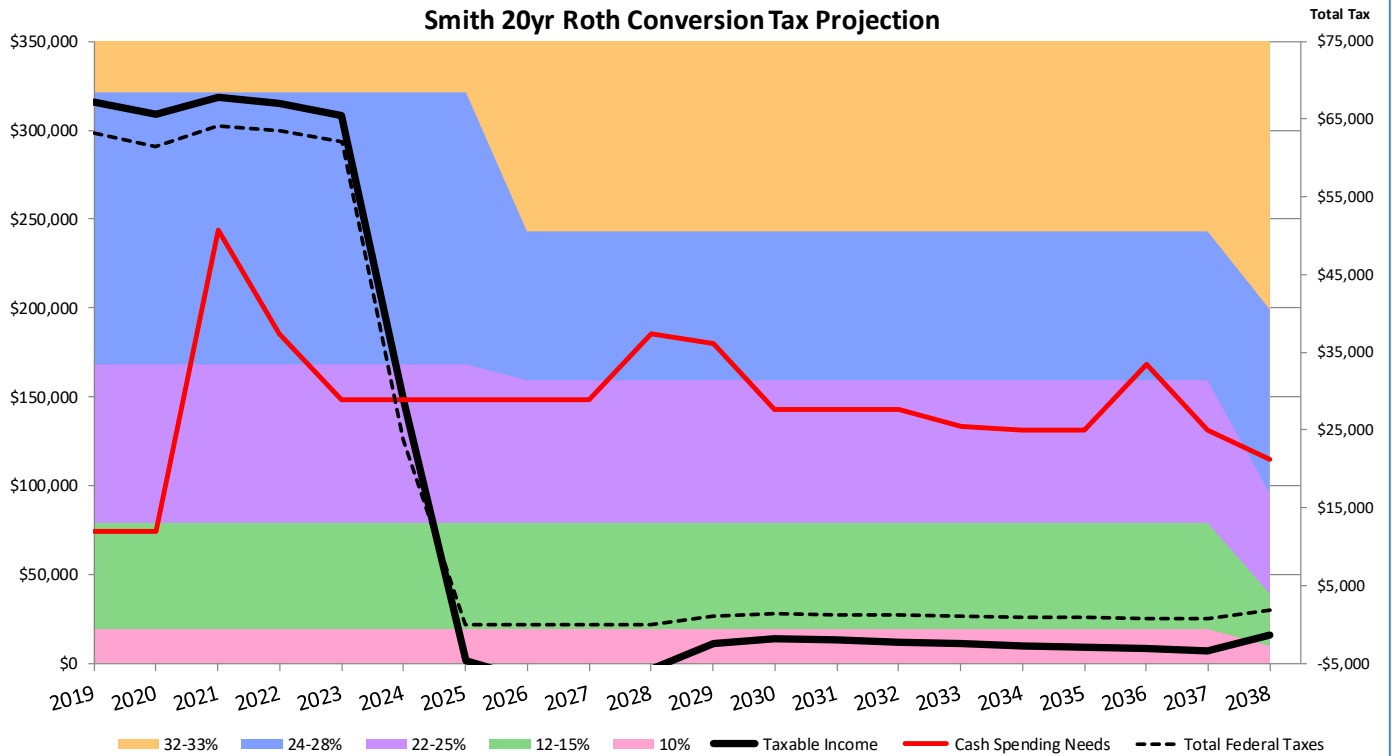
2019 Married Filing Jointly

- 10% on taxable income from \$0 to \$19,400, plus
- 12% on taxable income over \$19,400 to \$78,950, plus
- 22% on taxable income over \$78,950 to \$168,400, plus
- 24% on taxable income over \$168,400 to \$321,450, plus
- 32% on taxable income over \$321,450 to \$408,200, plus
- 35% on taxable income over \$408,200 to \$612,350, plus
- 37% on taxable income over \$612,350

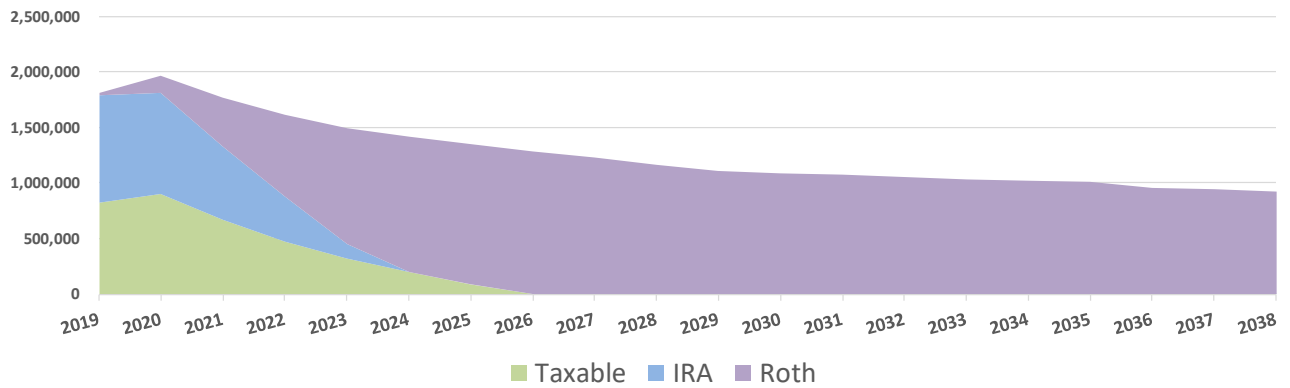
Baseline

Roth Conversions

Smith 20yr Roth Conversion Tax Projection



Account Balances Over Time



Medicare Premiums

- Managing your adjusted gross income could help reduce your monthly Medicare premium surcharges. Note: these surcharges are double if you are married and both on Medicare.

Medicare Part B Premiums		Part B	Part D
If your yearly MAGI in 2017 (for what you pay in 2019) was		You pay (in 2019)	You pay (in 2019)
File individual tax return	File joint tax return		
\$85,000 or less	\$170,000 or less	\$135.50	\$0.00
above \$85,000 up to \$107,000	above \$170,000 up to \$214,000	\$189.60	\$12.40
above \$107,000 up to \$133,500	above \$214,000 up to \$267,000	\$270.90	\$31.90
above \$133,500 up to \$160,000	above \$267,000 up to \$320,000	\$352.20	\$51.40
above \$160,000 up to \$500,000	above \$320,000 up to \$750,000	\$433.40	\$70.90
above \$500,000	above \$750,000	\$460.50	\$77.40

MAGI (Modified Adjusted Gross Income) Inflation Adjustments Start 2020

John & Joan Smith

2019 - 2038 Baseline Tax Projection

Single

	John	61	62	63	64	65	66	67	68	69	70	71	72	73	74	75	76	77	78	79	80
	Joan	55	56	57	58	59	60	61	62	63	64	65	66	67	68	69	70	71	72	73	74
Income:		2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2038
Wages	175,000	175,000	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Interest & Dividends	18,563	20,318	8,971	6,397	4,552	2,626	621	461	455	409	382	329	261	180	223	299	274	94	72	94	
Taxable Social Security Benefits	0	0	0	0	0	0	0	4,311	12,934	35,761	47,175	47,175	47,175	47,175	47,175	47,175	47,175	47,175	47,175	47,175	34,241
<i>Total Social Security Benefits</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>5,072</i>	<i>15,216</i>	<i>42,072</i>	<i>55,500</i>	<i>55,500</i>	<i>55,500</i>	<i>55,500</i>	<i>55,500</i>	<i>55,500</i>	<i>55,500</i>	<i>55,500</i>	<i>55,500</i>	<i>55,500</i>	<i>40,284</i>
<i>% Taxable</i>	<i>0%</i>	<i>0%</i>	<i>0%</i>	<i>0%</i>	<i>0%</i>	<i>0%</i>	<i>0%</i>	<i>85%</i>	<i>85%</i>	<i>85%</i>	<i>85%</i>	<i>85%</i>	<i>85%</i>	<i>85%</i>	<i>85%</i>	<i>85%</i>	<i>85%</i>	<i>85%</i>	<i>85%</i>	<i>85%</i>	<i>85%</i>
Capital Gains & Losses	16,500	18,060	7,974	5,686	4,046	2,335	552	411	405	364	339	292	232	159	198	266	243	84	63	83	
IRA Distributions & Pension Income	120,000	0	40,000	39,044	38,111	37,200	36,311	135,443	134,596	153,769	132,962	82,174	81,405	80,655	74,922	74,207	67,954	108,193	68,472	73,795	
Adjusted Gross Income	330,063	213,378	56,945	51,127	46,709	42,161	37,484	140,626	148,390	190,303	180,858	129,970	129,073	128,169	122,518	121,947	115,646	155,546	115,782	108,213	
Personal Exemptions	0	0	0	0	0	0	0	8,400	8,400	8,400	8,400	8,400	8,400	8,400	8,400	8,400	8,400	8,400	8,400	8,400	4,200
Itemized Deductions:																					
Medical Expense	0	0	19,282	11,277	11,719	12,174	12,642	2,327	1,551	0	0	0	0	0	0	0	0	0	0	0	0
Charitable Contributions	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000
Taxes	10,000	10,000	9,807	9,807	9,626	9,518	9,333	9,863	9,761	9,807	9,711	9,377	9,279	9,180	9,087	8,993	8,900	8,966	8,717	8,444	
Interest Expense	3,829	3,448	3,050	2,637	2,206	1,759	1,292	807	302	0	0	0	0	0	0	0	0	0	0	0	
Total Itemized	16,829	16,448	35,139	26,721	26,551	26,451	26,267	15,997	14,614	12,807	12,711	12,377	12,279	12,180	12,087	11,993	11,900	11,966	11,717	11,444	
Standard Deduction	24,400	24,400	24,400	24,400	25,700	25,700	25,700	14,500	14,500	14,500	15,800	15,800	15,800	15,800	15,800	15,800	15,800	15,800	15,800	15,800	8,250
Total Deductions from AGI	24,400	24,400	35,139	26,721	26,551	26,451	26,267	24,397	23,014	22,900	24,200	24,200	24,200	24,200	24,200	24,200	24,200	24,200	24,200	24,200	15,644
Taxable Income	305,663	188,978	21,806	24,406	20,158	15,710	11,217	116,229	125,376	167,403	156,658	105,770	104,873	103,969	98,318	97,747	91,446	131,346	91,582	92,569	
Regular Tax:																					
Schedule or Table Tax	61,708	33,704	2,229	2,541	2,031	1,571	1,122	20,220	22,507	33,270	30,327	17,605	17,381	17,155	15,742	15,599	14,024	23,999	14,058	18,724	
Alternative Capital Gains Tax	59,481	31,396	985	1,588	1,409	1,221	1,039	20,158	22,446	33,199	30,276	17,562	17,346	17,131	15,713	15,560	13,988	23,987	14,048	18,711	
High Income HI, Medicare & Other Tax	1,332	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
Total Federal Taxes	60,813	31,396	985	1,588	1,409	1,221	1,039	20,158	22,446	33,199	30,276	17,562	17,346	17,131	15,713	15,560	13,988	23,987	14,048	18,711	
Marginal Nominal Federal Rate	24	22	10	10	10	10	10	25	25	28	25	25	25	25	25	25	25	25	25	25	
Marginal Federal Rate with Phaseouts	24	22	10	10	10	10	10	25	25	28	25	25	25	25	25	25	25	25	25	25	

Taxation of Social Security Benefits

Bunching Charitable & Property Taxes will be effective in 2026 or if tax law is repealed sooner

Itemize vs. Standard Deduction

		Ending Values	
Total Income	\$2,564,908	Taxable	\$3,882
Taxable Income	\$2,071,224	IRA	\$785,893
Total Federal Taxes	\$358,576	Roth	\$44,515

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2019 - 2038 Roth Conversion Tax Projection

Single

	John	61	62	63	64	65	66	67	68	69	70	71	72	73	74	75	76	77	78	79	80
	Joan	55	56	57	58	59	60	61	62	63	64	65	66	67	68	69	70	71	72	73	74
Income:		2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2038
Wages	175,000	175,000	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Interest & Dividends	18,563	20,318	15,066	10,924	7,439	4,520	2,126	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Taxable Social Security Benefits	0	0	0	0	0	0	0	2,536	5,102	11,884	18,532	19,535	18,882	18,244	17,621	17,013	16,420	15,841	15,275	15,257	
<i>Total Social Security Benefits</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>5,072</i>	<i>15,216</i>	<i>42,072</i>	<i>55,500</i>	<i>55,500</i>	<i>55,500</i>	<i>55,500</i>	<i>55,500</i>	<i>55,500</i>	<i>55,500</i>	<i>55,500</i>	<i>55,500</i>	<i>55,500</i>	<i>40,284</i>
<i>% Taxable</i>	<i>0%</i>	<i>0%</i>	<i>0%</i>	<i>0%</i>	<i>0%</i>	<i>0%</i>	<i>0%</i>	<i>50%</i>	<i>34%</i>	<i>28%</i>	<i>33%</i>	<i>35%</i>	<i>34%</i>	<i>33%</i>	<i>32%</i>	<i>31%</i>	<i>30%</i>	<i>29%</i>	<i>28%</i>	<i>28%</i>	<i>38%</i>
Capital Gains & Losses	16,500	18,060	13,393	9,709	6,613	4,017	1,890	0	0	0	0	0	0	0	0	0	0	0	0	0	0
IRA Distributions & Pension Income	130,000	120,000	320,000	324,044	323,111	167,364	36,311	35,443	34,596	29,886	30,993	32,174	31,405	30,655	29,922	29,207	28,509	27,828	27,162	26,513	
Adjusted Gross Income	340,063	333,378	348,459	344,677	337,163	175,901	40,327	37,979	39,698	41,770	49,525	51,709	50,287	48,899	47,543	46,220	44,929	43,669	42,437	41,770	
Personal Exemptions	0	0	0	0	0	0	0	8,400	8,400	8,400	8,400	8,400	8,400	8,400	8,400	8,400	8,400	8,400	8,400	8,400	4,200
Itemized Deductions:																					
Medical Expense	0	0	0	0	0	0	12,357	12,592	12,420	12,213	6,078	5,860	6,002	6,141	6,277	6,409	6,538	6,664	6,787	2,738	
Charitable Contributions	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000
Taxes	10,000	10,000	10,000	10,000	10,000	10,000	9,415	9,311	9,209	9,304	9,263	9,164	9,066	8,967	8,874	8,780	8,687	8,592	8,504	8,225	
Interest Expense	3,829	3,448	16,938	16,274	15,582	14,862	14,113	13,333	12,521	11,900	11,568	11,222	10,863	10,488	10,099	9,693	9,271	8,832	8,375	7,899	
Total Itemized	16,829	16,448	29,938	29,274	28,582	27,862	38,885	38,236	37,150	36,417	29,909	29,246	28,931	28,596	28,250	27,882	27,496	27,088	26,666	21,862	
Standard Deduction	24,400	24,400	24,400	24,400	25,700	25,700	25,700	14,500	14,500	14,500	15,800	15,800	15,800	15,800	15,800	15,800	15,800	15,800	15,800	15,800	8,250
Total Deductions from AGI	24,400	24,400	29,938	29,274	28,582	27,862	38,885	46,636	45,550	44,817	38,309	37,646	37,331	36,996	36,650	36,282	35,896	35,488	35,066	26,062	
Taxable Income	315,663	308,978	318,521	315,403	308,581	148,039	1,442	(8,657)	(5,852)	(3,047)	11,216	14,063	12,956	11,903	10,893	9,938	9,033	8,181	7,371	15,708	
Regular Tax:																					
Schedule or Table Tax	64,108	62,504	64,794	64,046	62,408	24,286	144	0	0	0	1,122	1,406	1,296	1,190	1,089	994	903	818	737	1,872	
Alternative Capital Gains Tax	61,881	60,066	62,986	62,735	61,516	23,864	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
High Income HI, Medicare & Other Tax	1,332	1,458	1,081	784	534	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
Total Federal Taxes	63,213	61,524	64,067	63,519	62,050	23,864	0	0	0	0	1,122	1,406	1,296	1,190	1,089	994	903	818	737	1,872	
Marginal Nominal Federal Rate	24	24	24	24	24	22	0	0	0	0	10	10	10	10	10	10	10	10	10	10	15
Marginal Federal Rate with Phaseouts	24	24	24	24	24	22	0	0	0	0	10	10	10	10	10	10	10	10	10	10	15

Taxation of Social Security Benefits
 Bunching Charitable & Property Taxes will be effective in 2026 or if tax law is repealed sooner
 Itemize vs. Standard Deduction

	Roth Conversions	vs. Baseline	Ending Values
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