


Tax Tips



AnthemEAP

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Objectives

- Easy Best Tax Tip
- Understanding the taxation and reporting system
- Basic Tax Strategies
- Using Adjustments, Deductions and Credits to reduce your tax
- The Alternative Minimum Tax
- Refunds and Balance Due options
- Know what records to keep just in case
- Efficiently plan for future purchases and events

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Best Tax Tips

Prepare taxes as early as possible

- Gather all documents early
 - Most are provided by January 31st
- File as early as possible if expecting a refund
 - Identity theft issues and tax refund fraud is increasing
 - Tax refunds are sent to individuals claiming to be you or me
 - Filing early decreases the risk
- In cases of owing, preparing early gives you time to gather funds before filing by the deadline

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Federal Tax System

- Congress writes and passes the tax laws
- The Treasury Department administers the tax law and sets collection policies
- The Internal Revenue Service (IRS) collects the taxes

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Additional Taxes

- State & Local Income Taxes
- Sales Taxes
- Property Taxes
- Excise Taxes
- Social Security Taxes
- Medicare Taxes
- Gift and Estate Taxes



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Progressive Tax System

Under the US income-tax structure, the more you earn, the higher the rate at which you pay. This system is called a Progressive Tax System. Income is divided into specific ranges called tax brackets, each with a separate tax rate.

Taxable Income	Tax Due
\$0 to \$20,550	10% of Taxable Income
\$20,551 to \$83,550	12% of Taxable Income
\$83,551 to \$178,150	22% of Taxable Income
\$178,151 to \$340,100	24% of Taxable Income
\$340,101 to \$431,900	32% of Taxable Income
\$431,901 to \$647,850	35% of Taxable Income
\$647,851 or more	37% of Taxable Income

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The Reporting System

Form 1040

- Most common. Allows for schedules and attachments

Form 1040SR

- For taxpayers age 65+ with larger print and help figuring standard deductions.

Form 1040NR

- For non-resident aliens with earned income in the US.

Form 1040A and 1040EZ

- No longer used because the 1040 has been shortened and simplified.

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Basic Tax Strategies



Four basic strategies to minimize taxes:

- **Tax Reduction:** deductions and credits used to reduce income taxes
- **Tax Deferral:** an economic return not recognized for current tax purposes
- **Tax Avoidance:** an economic return not subject to taxation
- **Income Conversion:** convert ordinary income into more tax favorable form of income

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Completing a Return

Question 1: What is your filing status?

As a taxpayer, you fit into one of several categories of filing status, including:

- Single
- Married filing jointly
- Married filing separately
- Head of household

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Sources of Income

Question 2: What is your gross income?

Gross Income:

- Salary
- Commissions
- Bonuses
- Business income
- Up to 85% of Social Security income
- Farm income
- Alimony received
- Unemployment income

- Capital gains or losses
- Taxable interest
- Rental property income
- Taxable distributions from IRAs and retirement plans
- S corporation and partnership income
- Trust and estate distributions
- Royalties

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From Gross Income to Tax Due

Gross Income
= Adjusted Gross Income (AGI)

Adjustments

↓

AGI
= Taxable Income

Deductions

↓

(Income Tax Owed calculated using tax tables)

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From Gross Income to Tax Due

Gross Income
= Adjusted Gross Income (AGI)

Adjustments

↓

AGI
= Taxable Income

Deductions

↓

(Income Tax Owed calculated using tax tables)

↓

Income Tax Owed
= Total Tax

Credits

↓

Total Tax minus Withholdings / Payments
= Refund or Payment Due

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Withholding

When should you withhold more?

- More than one job
- When both spouses work
- High state and local taxes
- High income
- Large investment earnings

When should you withhold less?

- Home ownership
- Many dependents
- Large tax credits

IRS Tax Withholding Estimator
<https://apps.irs.gov/app/tax-withholding-estimator>

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How Can I Reduce What I Owe in Taxes?

Motivation to Save

- Retirement Plan Contributions
- IRA Deductions
- Roth IRA Contributions
- The Saver's Credit
- Flexible Spending Accounts (FSA)
- Health Savings Accounts (HSA)



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Adjustments to Income

Deferred Compensation Accounts

- 401k, 403b, some 457, TSPs
- Up to \$19,500 (\$26,000 if age 50+)

Traditional IRA & Roth IRA

- Up to \$6,000 per year (\$7,000 if age 50+)

Health Savings Accounts (HSA)

- \$3,600 self or \$7,200 family
- \$4,600 self or \$8,200 family if age 55+

Flexible Spending Accounts (FSA)

- Up to \$2,850

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Tax Exempt Accounts

Earnings on these types of accounts are not counted as income so no tax is due, now or ever:

- Roth Individual Retirement Accounts
- Certain municipal bonds
- 529 plans (if used for education expenses)
- Coverdell Educational Savings Accounts (if used for education expenses)
- ABLE accounts \$15,000 a year without affecting benefits

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Standard Or Itemized Deduction?

Tax Cuts and Jobs Act Changes

- Personal Exemption eliminated
- Standard Deduction increased
- Itemizing Deductions is still allowed, but fewer deductions are available
 - Mortgage interest & points
 - Property taxes
 - SALT (State And Local Taxes)
 - Unreimbursed medical expenses over 7.5% of AGI
 - Charitable donations*
 - Casualty and theft losses
- Eliminated limits on total amount of itemized deductions*

* Income limits and certain deduction limits still apply

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Standard Or Itemized Deduction?

2022 Standard Deduction by filing status

SINGLE or MARRIED FILING SEPARATE

- \$12,950

HEAD OF HOUSEHOLD

- \$19,400

MARRIED FILING JOINT or QUALIFIED WIDOW(ER)

- \$25,900

For each filer who is legally blind add \$1,400*

For each filer who is age 65+ add \$1,400*

* If filer is unmarried and not a surviving spouse, this amount is \$1,700

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Giving to Charity in 2022



Cares Act Extension Provides Expanded Options

If you don't itemize deductions

- Up to \$300 (individuals)
- Up to \$600 (married filing joint)
- Cash contributions
- Must be a registered charity

If you itemize deductions

- Cash contributions: to up to 60% of AGI
- Records / receipts required from registered charities

Look up qualifying charities on IRS website

Tax Exempt Organization Search:
<https://apps.irs.gov/app/eos/>

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Tax Credits 2022

For taxpayers with children and dependents

Child and Dependent Care Credit

- Up to 35% qualifying expenses
- Up to \$3,000 expenses for 1 child under age 13
- Up to \$6,000 expenses for more than 1 child

Child Tax Credit & Advance Child Tax Credit

- Up to \$2,000 for children ages 16 and under on 12/31/2022
- Advances on this credit began July 2021

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Tax Credits 2022

Earned income credit

- Ranges from \$538 single with no dependents up to \$6,935 married with 3+ dependents

Education Credits

- American Opportunity Credit (up to \$2,500)
- Lifetime Learning Credit (up to \$2,000)
- Search IRS.gov: "am I eligible to claim an education credit"

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MORE Tax Credits 2022

- Mortgage Interest Credit
- Savers Credit
 - From \$200-\$2,000
- Adoption credit
 - Up to \$14,890
- Premium Tax Credit
 - Sometimes advanced through Affordable Care Act



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2022 Alternative Minimum Tax

Exemption Amounts:

- Individuals: \$75,900
- Married Filing Separately: \$59,050
- Married filing jointly: \$118,100
- Qualified surviving spouse: \$114,600

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Tax Refunds

When you file your taxes, any refund you expect can now be directed to a few different options:

- Sent by check or direct deposit
- Direct deposited to as many as many as 3 different checking or savings accounts
- Invested (up to \$5,000) in Series I Savings Bonds
- Options can be mixed

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Balance Due

If you find you have a balance due, you have some options:

- Pay the balance due in full when filing your taxes
- Pay as much as you can now to reduce interest and penalties
- Borrowing from a bank may be less expensive than the interest and penalties the IRS charges
- Make a payment agreement with the IRS
- For large amounts from past years, you can investigate the "offer in compromise" program with the IRS

Go to IRS.gov and search: "options for taxpayers who owe taxes"

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Keeping Records

Records that show what you earned and what you spent

- W-2: Wages or salary
- 1099: Miscellaneous earnings
- 1099-R: Retirement income or distributions
- 1099-DIV & INT: Dividend earnings
- 1099-INT: Interest income
- 1099-Q: Tuition payments
- Receipts/checks (expenses)
- Credit card slips (expenses)
- Appointment book/log (expense records)

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When Should You Consider Tax Planning?

- Income
- Investments
- Marriage
- Divorce
- Self-Employment
- Personal residence
- Vacation home
- Business owners
- Gift and estate planning
- Education

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Information Sources

- IRS: www.irs.gov
- US Dept. of Treasury: www.treasury.gov
- American Institute of CPAs: www.aicpa.org
- 360 Degrees of Taxes: www.360taxes.org
- Social Security Administration: www.ssa.gov

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Evaluation

Survey QR Code




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