

# Introduction to Federal Taxes

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# Types of Federal Taxes

- ▶ Personal Income
- ▶ Payroll/Self Employment Taxes
- ▶ Net Investment Income Tax
- ▶ Estate and Gift Tax
- ▶ Corporate Taxes
- ▶ Federal Excise Taxes



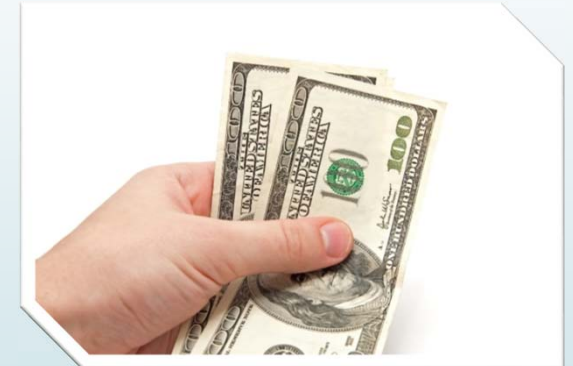


# Personal Income Tax Generally

- ▶ Income
- ▶ Adjustments to Gross Income
- ▶ Adjusted Gross Income ("AGI")
- ▶ Less Deductions
- ▶ Less Exemptions
- ▶ Net Income
- ▶ Tax Rate (Start at 10% up to 39.6% on income greater than \$415,050)

# Income

- ▶ Pursuant to Sec. 61, all income is presumed to be subject to income tax.
- ▶ Common Forms of Income:
  - ▶ Wages
  - ▶ Dividends
  - ▶ Capital Gains and Gains from Sale of Assets
  - ▶ Interest
  - ▶ State Tax Refunds
  - ▶ Rental Income
  - ▶ Self Employment Income
  - ▶ Income from Partnerships/Limited Liability Companies and S Corporations
  - ▶ Retirement Income (IRA/401(k) Distributions and Social Security)



# Adjustments to Gross Income

- ▶ Health Savings Account Contributions
- ▶ One Half of Self Employment Taxes
- ▶ Health Deduction for Self Employed Individuals
- ▶ IRA/401(k)/Qualified Plan Contributions
- ▶ Alimony
- ▶ Student Loan Interest





# Common Deductions

- ▶ Medical/Dental Expenses (in excess of 7.5% of AGI)
- ▶ Property Taxes
- ▶ State and Local Income Taxes
- ▶ Mortgage Interest
- ▶ Gifts to Charity
- ▶ Job Related Expenses (in excess of 2% of AGI)
- ▶ Itemized Deductions begin to Phase Out after \$313,800 of AGI

# Tax Rate

- Graduated Rate
  - 7 Brackets: 10%/15%/25%/28%/33%/35%/39.6%
  - Lowest Bracket Starts at Taxable Income of \$18,550 at 10%
  - Highest Bracket Starts at Taxable Income of \$466,950 at 39.6%
- Tax Credits
  - Earned Income Credit
  - Child Credit
  - Foreign Tax Credits

# Payroll Taxes

| Employer Portion   | Employee Portion  |
|--|---|
|  | Withholding Taxes (Federal, State and Local)                            |
| Social Security Tax – 6.2% of first \$127,200 (\$7,886.40 Maximum) | Social Security Tax – 6.2% of first \$127,200 (\$7,886.40 Maximum)      |
| Medicare Tax – 1.45% in excess of \$127,200                        | Medicare Tax – 1.45% in excess of \$127,200                             |
|  | Additional Medicare Tax of .9% if Married Filing Jointly over \$250,000 |
| Unemployment Tax (Assessed Rate x Taxable Wage Base \$9,000)       |   |





# Self Employment Taxes

- Equivalent to Employer/Employee Social Security Taxes
- Applies to Self Employment Income or Partner/Member's share of Partnership/LLC Active Income
- 15.3% of First \$127,200
- 2.9% in excess of \$127,200
- Additional .9% in excess of \$250,000 of AGI



## Net Investment Income Tax

- Net Investment Income Tax is a 3.8% tax on all investment income if the taxpayer's adjusted gross income is in excess of \$200,000 single, \$250,000 if married filing jointly.
- Applies to allocable share of partnership or S corporation income unless taxpayer materially participates pursuant to Sec. 469.



# Estate and Gift Tax

- Each individual taxpayer is entitled to a unified credit of \$2,141,800 which is equivalent of \$5,490,000 of lifetime/death Estate and Gift Tax Exclusion.
- Generation Skipping Tax assessed on all transfers to “skip persons” in excess of the Exclusion.
- If married, any unused unified credit may be used by the surviving spouse on his/her death.
- Excluded Gifts/Bequests
  - Gifts/Bequests to Spouses
  - Annual Gifts of \$14,000/\$28,000 if married
  - Education Expenses
  - Medical Expenses



# Tax Planning for Estate & Gift Taxes

- Estate Planning to adequately utilize Unified Credit and Marital Deduction
- Efficient use of Annual Exclusion
  - Transfers to Irrevocable Trusts
  - Irrevocable Life Insurance Trusts (“ILIT’s”)
- Transfers of Appreciating Property
- Charitable Giving



# Corporate Income Tax

- All Income is Presumed Taxable
  - Sales from products, less Cost of Sales
  - Gains from Dispositions
  - Dividends/Interest, Rents, Royalties
- Expenses only if Permitted by Code
  - 162 – Ordinary and Necessary
  - Payroll related – wages, payroll taxes, retirement benefits
  - Interest
  - Depreciation, Amortization
  - Advertising
- Non Deductible Expenses
  - Life Insurance Premiums
  - Meals and Entertainment
  - Fines and Penalties
  - Illegal Activities



# Corporate Tax Rate

- Graduated up to \$100,000
- 34% after \$100,000/35% after \$10,000,000
- Common Credits
  - Foreign Tax Credits
  - Research & Development Credits
  - Work Opportunity Credits
- Planning Opportunities
  - Deferral of Income
  - Acceleration of Deductions
- Dividends are further taxed at shareholder level (capital gain rates).
  - Corporate Reorganizations



# Excise Taxes

- ▶ Fuel Taxes
- ▶ Communications and Air Transportation Taxes
- ▶ Cigarette Taxes
- ▶ Medical Device Taxes
- ▶ Foreign Insurance

# Questions?

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