

My Tax Projections Seem Wrong

IF YOUR TAX PROJECTIONS SEEM SUBSTANTIALLY DIFFERENT THAN YOUR EXPECTATIONS, HERE ARE SOME THINGS YOU SHOULD REVIEW

DEDUCTIONS

Don't forget to enter these common items that create deductions. When entered, the system automatically includes these in the tax calculation when using the default 1040 calculation.

- Mortgage Interest – Enter mortgages in the Liabilities area so the system can amortize.
- Charitable Gifts – Enter these in the Planned Gifts area.
- State/local income taxes – Enter these tax rates in the Assumptions area.
- Retirement plan savings – Use the Contributions tab within each retirement plan.
- Existing charitable or capital loss carry-forwards – Enter in the Assumptions area.

IS THE INVESTMENT INCOME CORRECT?

The taxation of investment income is sometimes overlooked. The growth rate applied to a taxable account can be taxed several ways:

- Unrealized Capital Gains
- Ordinary Investment Income
- Dividends
- Non-Taxable

You can use the Realization tab to define the proper tax handling.

If using a "Custom X%" growth rate, rather than a model portfolio rate, the system defaults to 100% ordinary investment income, which can be taxed up to 39.6%. That can create a large tax difference every year if you were expecting the growth to be unrealized capital gains. Use the realization tab to change this as appropriate.

Realization

Model:

Of the account's expected \$17,040 of growth this year,

<input type="text" value="20%"/>	(or) \$3,408	Is Qualified Dividends
<input type="text" value="10%"/>	(or) \$1,704	Is Investment Income subject to Ordinary Income Tax
<input type="text" value="70%"/>	(or) \$11,928	Is Capital Gains (Short- or Long-Term)
<input type="text" value="0%"/>	(or) \$0	Is Non Taxable
100%		

of the account is turned over annually

Income Distribution

Percentage of dividends, investment, and/or non-taxable income that is to be distributed annually.

Pre-Retire:

Post-Retire:

Fig. 1. Realization Tab

BASIS

Make sure the basis is entered correctly for taxable accounts and property. If basis is left blank, the basis is assumed to be the same as the market value, which could lead to incorrect capital gains.

TAX EVENTS LEDGER

The Tax Events Ledger is the system's way to view all of the relevant tax items in one place.

Select the Ledger report family and use the Tax Events Ledger for any year in question. This report gives you all of the raw tax data that the system accumulates and organizes into the income tax reports. This report enables you to see if there is a tax event that is especially high or low or missing.