

# Tax Acuity Analysis

Prepared for:

Ruth Sample

Prepared by:

Bruce Larsen

Colorado Wealth Group

1345 S Broadway

Denver, CO 80210

720-729-2078

[blarsen@coloradowealthgroup.com](mailto:blarsen@coloradowealthgroup.com)

[ColoradoWealthGroup.com](http://ColoradoWealthGroup.com)

Plan Name: Sell Rentals

Ruth,

Congratulations on getting the rental properties sold. The amount you received over asking price is substantial. When John, your tax preparer, gave you your estimated tax payments, he didn't know the final sales prices. He also wasn't aware of the income we are generating in your accounts here a CWG. Please forward this report so he can look it over to determine if the additional estimated tax liability we have calculated is correct.

Thanks

## Disclaimer

Colorado Wealth Group LLC does not provide tax, legal or accounting advice. This material has been prepared for informational purposes only, and is not intended to provide, and should not be relied on for tax, legal or accounting advice. You should consult your own tax, legal, and accounting advisors before engaging in any transaction. Tax laws are complex and subject to change.

## Federal Taxes

The following is an outline of your federal tax situation based on the inputs you provided.

### Income before Limitations, Adjustments, and Exclusions

This section lists all sources of positive cash flow, regardless of whether you are using a cash flow item to cover current expenses. For instance, you may have received a gift or inheritance that you plan to save or invest rather than using the cash flow for current expenses.

Owner	Cash Flow Type	Amount
Client	Social Security	26,500
Client	IRA/401k Distributions - CNB	21,000
Client	IRA/401k Distributions - TD	23,760
Client	IRA/401k Distributions - TD Bene	7,000
Client	Short Term Cap Gain - TD	726
Client	Tax Exempt Interest - TD	42,431
Client	Non-Qualified Dividends - TD	9,650
Client	Long Term Cap Gain - Harp Rental	206,920
Client	Long Term Cap Gain - Elm Rental	401,867
Client	Non-US Govt Interest - Westera	1,400
Client	Long Term Cap Gain - Carry Forward	-3,118
Client	Sch E Passive Business Income or Loss - Rental Losses	-8,000
Client	Other Taxable Income - State Refund	1,098
Total Income before Limitations, Adjustments, and Exclusions		731,234

## Cash Flow Used

This section shows the income, from the previous section, that is used to cover expenses. Often, we have cash flows coming in, such as reinvested dividends and interest, that is taxed, even though the income is not being used for current expenses. If you have taxable cash flows that are not being used, you may want to discuss with your advisor the possibility of sheltering this income to reduce taxes.

Also shown in this section are pre-tax cash flows out, if any, such as IRA contributions. Your company-sponsored retirement plan contributions are already netted out of your W-2 income so are not shown here. These items are shown on Part II of your Form 1040 Schedule 1.

Owner	Cash Flow Type	Amount
Client	Social Security	26,500
Client	IRA/401k Distributions - CNB	21,000
Client	IRA/401k Distributions - TD	23,760
Client	IRA/401k Distributions - TD Bene	7,000
Client	Short Term Cap Gain - TD	54,000
Client	Long Term Cap Gain - Harp Rental	488,800
Client	Long Term Cap Gain - Elm Rental	757,637
Client	Other Non-taxable Cash Flow - Payoff Harp	-210,401
Total Net Cash Flows Used		1,168,296

## Federal Adjusted Gross Income

Your federal AGI is all income that is taxable, less adjustment to AGI (found on Section II of 1040 Schedule 1). Federal AGI can at times be confusing. This is due to some incomes being included in AGI that is taxed at a 0% rate, such as capital gains for people in roughly the 12% bracket. Only the taxable portion of your Social Security Benefits are included in AGI. Modified AGI (MAGI) includes total Social Security benefits as well as tax-exempt interest.

Owner	Cash Flow Type	Amount
Client	IRA/401k Distributions - CNB	21,000
Client	IRA/401k Distributions - TD	23,760
Client	IRA/401k Distributions - TD Bene	7,000
Client	Short Term Cap Gain - TD	726
Client	Non-Qualified Dividends - TD	9,650
Client	Long Term Cap Gain - Harp Rental	206,920
Client	Long Term Cap Gain - Elm Rental	401,867
Client	Non-US Govt Interest - Westera	1,400
Client	Long Term Cap Gain - Carry Forward	-3,118
Client	Sch E Passive Business Income or Loss - Rental Losses	-8,000
Client	Other Taxable Income - State Refund	1,098
Total	Net Capital Gains or -Losses	606,395
LT Gains or -Losses		605,669
ST Gains or -Losses		726
Total	Taxable Soc. Security - 85.00%	22,525
Adjustments to AGI		
Total Federal Adjusted Gross Income		684,828

## Federal Deductions from AGI

Your federal deductions from AGI are detailed on Schedule A of Form 1040. You are allowed to take the greater of your itemized deductions or the standard deduction. The standard deduction is \$12,550 for single filers and married filing single, \$18,800 for head of household filers, and \$25,100 for those filing jointly. The standard deduction is increased by \$1,350 for people 65 and older and/or people who are blind.

Some of your itemized deductions are limited. You are only allowed to deduct medical expenses that exceed 7.5% of your AGI. Your state and local tax deduction (SALT) is limited to \$10,000. Charitable deductions are also limited based on the type of contribution made - cash or property - as well as to the type of charity - public or private. If the standard deduction is more beneficial for you, you can take a charitable deduction of up to \$300.

Owner	Deduction Type	Before Limits	After Limits
Client	Medical Expenses	4,000	0
Client	State and Local Taxes	33,942	10,000
Client	Charity	67,000	67,000
Total Itemized Deductions		104,942	77,000
Standard Deduction			14,250
Plus: Partial Charity Deduction if Std. Ded. Used			300
Federal Deduction from AGI			77,000

## Federal Taxable Income

There are three separate ways your federal income is taxed. It can be taxed as ordinary income using the standard brackets of between 12% and 37% based on income. Capital gains and qualified dividends are taxed from 0% to 20%. Collectibles, including physical gold and silver, are taxed as ordinary income up to a maximum rate of 28%. In addition to the income tax, wage earners are subject to a Social Security tax of 6.2% of annual income up to \$142,800 and a Medicare tax of 1.45% on all earned income. For self-employed people, the Social Security and Medicare taxes are also applied (self-employed pay both the employee and employer portions of the taxes). Self-employment taxes are deductions to AGI.

Higher wage earners pay additional taxes, along with the higher marginal tax brackets. For people with investment earnings and total AGI (for joint filers) of \$250,000, an additional Net Investment Income Tax is applied to investment earnings over the threshold of 3.8%. For those with high wages (over \$250,000 for joint filers), an additional 0.9% Medicare tax is applied. Your advisor can give you a fact card with all of these limits.

Income Type	Amount
Ordinary Income	2,159
Long Term Capital Gain -loss	605,669
Total Federal Taxable Income	607,828
Income Subject to Other Federal Taxes	
Income Subject to 3.8% Net Investment Income Tax	484,828

## Federal Taxes

This section shows the taxes that are due for the income types shown in the last section. You are in the 10% bracket for ordinary income.

Tax Type	Taxable Inc.	Tax
Ordinary Income (Tax Bracket 10%)	2,159	216
Capital Gain/Qual Dividends Taxed at 0%	38,241	0
Capital Gain/Qual Dividends Taxed at 15%	405,450	60,818
Capital Gain/Qual Dividends Taxed at 20%	161,978	32,396
Net Investment Income Tax	484,828	18,423
Total Federal Tax		111,853

## Federal Credits

There is a wide range of federal credits available. The most common is the Child Credit. The Child Credit is currently actually two credits. The first allows a credit of \$3,600 for children under 6 and \$3,000 for children 6 to 17. It begins to phase out for joint or head of household filers with modified AGI over \$150,000. The old credit was \$2,000 for children 17 and under and \$500 for other dependents. It begins to phase out at joint AGI of \$400,000. Taxpayers are allowed to take whichever credit - but not both - that gives them the best advantage. Other credits, such as the Earned Income Tax Credit, the Child Care Credit, the Investment Credit, and the ACA Premium Credit are only available for low income filers.

Credit Type	Amount
Child Care Credit	
Total Federal Credits	0

  

Federal Tax Due After Credits	111,853
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## Federal Withholding

It is critical when doing a tax analysis to make sure your tax withholding is accurate. If you are in a state that taxes your income, your State and Local Tax Deduction (SALT) is based on the amount withheld, not the actual taxes due. Your advisor will adjust your withholding so that you have no taxes due. This is the only way to accurately project your net after tax cash flow.

In retirement it is even more important to get your withholding correct. If you receive a refund in retirement, this is generally due to distributing too much from your 401k or IRA accounts. Not only does the over distribution cause more taxes on the distribution, but it usually causes more of your Social Security to be taxed. The opposite situation (having taxes due at tax time) is also a problem for most retirees. Not only may you be subject to a penalty, but it is often disruptive to your cash flow plan to have to cover the taxes due. If your current or projected required minimum distributions exceed your cash flow needs, you should discuss with your advisor whether you should consider a Roth conversion or delaying or suspending your Social Security benefits. Because of the way Social Security benefits are taxed, the higher the ratio of Social Security to other income, the lower your taxes will be, generally. It often makes sense to spend down some qualified accounts early in retirement in order to maximize Social Security.

Owner	Income Type	Income	Withholding
Client	Social Security	26,500	
Client	IRA/401k Distributions - CNB	21,000	4,200
Client	IRA/401k Distributions - TD	23,760	3,564
Client	IRA/401k Distributions - TD Bene	7,000	
Client	Estimated Payments - YTD		55,000
Client	Estimated Payments - 4th Qtr Estimate		49,088
Total Federal Withholding			111,852

Net Federal Tax Due (should be zero)	0
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## Colorado State Income Taxes

The following is an outline of your Colorado tax situation based on the inputs you provided.

### Colorado State Taxable Income

The Colorado tax calculation begins with federal taxable income. Some adjustments are then made for different taxation of some income types such as interest from US government obligations (subtracted) and interest from non-Colorado municipal bonds (added). Colorado provides a retirement income exclusion of \$20,000 for ages 55 to 64 and \$24,000 for ages 65 and up. This exclusion applies to all types of retirement income, including federally taxable Social Security.

Colorado Adjustments to Federal Taxable Income	
Adjustment Type	Amount
Tax Exempt Interest from Other States	41,488
Client Pension Deduction	-24,000
<b>Total Colorado Adjusted Taxable Income</b>	<b>625,316</b>

Colorado has a flat tax rate of 4.5%.

Colorado Income Tax Before Credits (Flat rate of 4.5%)	28,139
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## Tax Credits

Colorado offers several non-refundable credits as well as a refundable Earned Income Tax Credit for low income filers.

Non-Refundable Credits	Amount
Total Credits	0

  

Colorado Tax Due after Credits	28,139
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## Colorado Tax Withholding

Owner	Income Type	Income	Withholding
Client	IRA/401k Distributions - CNB	21,000	
Client	IRA/401k Distributions - TD	23,760	950
Client	IRA/401k Distributions - TD Bene	7,000	
Client	Estimated Payments - YTD		10,000
Client	Estimated Payments - 4th Qtr Estimate		17,189
Total Withholding			28,139

Net Colorado Taxes Due	0
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After Tax Disposable Cash Flow	1,028,305
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