

2019 Income Tax Return Review

Prepared For: Mr. and Mrs. Sample
From: Your Baird Financial Advisor
Prepared By: Financial & Estate Planning Department

Below are our observations after reviewing your most recent tax return:

BRACKETS, RATES & TAXES

- Your ordinary taxable income was \$408,039, which placed you in the 32% marginal ordinary tax bracket. The next bracket of 35% will apply once your ordinary taxable income reaches \$414,700 (in 2020). To go to the next lower bracket of 24%, your ordinary taxable income would need to fall below \$326,600 (in 2020).

Ordinary Taxable Income	Tax Rate
\$0 – 19,750	10%
\$19,750 – 80,250	12%
\$80,250 – 171,050	22%
\$171,050 – 326,600	24%
\$326,600 – 414,700	32%
\$414,700 – 622,050	35%
\$622,050 +	37%

- Your total taxable income of \$409,155 included \$1,116 of qualified dividends. This dividend income does not directly push your ordinary income into a higher tax bracket.
- Your qualified dividends were subject to the 15% marginal tax rate. The next bracket of 20% will apply once your taxable income reaches \$496,600 (in 2020). To go to the next lower bracket of 0%, your taxable income would need to fall below \$80,000 (in 2020).

Long-Term Gain/Qualified Dividend Income	Tax Rate
\$0 – 80,000	0%
\$80,000 – 496,600	15%
\$496,600 +	20%

This document is provided for informational purposes only and intended solely for the use and benefit of its intended recipient. Baird does not provide accounting, tax or legal advice and this document should not be construed as such. While Baird makes reasonable attempts to stay abreast of tax law changes, it is possible that there are tax management strategies not addressed in this document that are superior to those discussed herein and/or unbeknownst to Baird. Baird makes no representations to the accuracy or completeness of the information in this document, including any information supplied by third parties or by you. It is strongly recommended that all proposed tax or financial planning should be discussed with your tax professional or financial advisor, as appropriate.

- You were subject to the 0.9% Medicare tax on your earned income, which cost you \$1,696. This tax applies once your combined earned income exceeds \$250,000, although your employer is required to withhold the tax once income reaches \$200,000, meaning you had \$1,835 withheld for this tax during the year. This extra withholding was credited against your regular tax liability.

TAX CREDITS, PAYMENTS, REFUNDS & PENALTIES

- Last year, you claimed child credits (dependents over age 16) of \$1,000. This is a \$2,000 credit per child under age 17, plus an additional \$500 credit for any dependent over age 16 or who is not your own child. However, this credit is subject to a phaseout once Modified AGI exceeds \$400,000. For last year, your total credit was \$0, completely eliminated by the phaseout.
- You had a federal tax balance due of \$15,604 for the previous year. This can be avoided by increasing your withholding, although delaying the payment of some of your tax until your return is filed gives you the best and longest use of your money. You should be careful to calculate your payments so you pay as little as you need to during the year, but enough to avoid the underpayment penalty. In order to avoid an underpayment penalty, you must target your payments to hit either of the following amounts:
 - 90% of your current year liability
 - 110% of the prior year liability (100% if the prior year AGI was below \$150,000). This is referred to as the “safe harbor” payment amount.

If this can't be reached using withholding, then the difference must be made up via estimated payments each quarter. For this year, your safe harbor target is approximately \$ 110,000, but if you expect your income to be flat or even fall this year you should consider targeting 90% of your actual current year liability.

TAX DEDUCTION PLANNING

- You made \$720 of charitable contributions in cash last year.
- If you plan to make larger charitable contributions in the future, consider donating appreciated securities, which can be more tax-efficient to donate than cash. You could then repurchase the positions with the cash if you wanted to continue holding them.
- Your total itemized deductions last year exceeded your standard deduction by \$2,959. You may want to consider a “bunching” strategy with your tax deductions, where you would either accelerate or defer deductible expenses each year. With this strategy, you could perhaps alternate between the standard deduction and itemizing. This bunching approach works best with charitable contributions, although there may be opportunities to do this with other expenses as well.
- A Donor Advised Fund (DAF) is one of the charitable giving tools available to help implement a bunching strategy. A donor can make a gift to the DAF, receive a charitable deduction for the full amount of the gift, and then make donations to your favorite qualified charities over time at your discretion.

INVESTMENT INCOME

- You reported \$436 of taxable interest, which was taxed as ordinary income. Investors in higher brackets often earn a better after-tax return by switching to tax-exempt investments.

BUSINESS INCOME

- You reported pass-through income from your LLC last year. Owners of a pass-through trade or business – including partnerships, S Corporations, and sole proprietorships – may be able to exclude up to 20% of their net Qualified Business Income. However, this exclusion is reduced for those with total taxable income (before the exclusion) over \$321,400. Your exclusion was limited to \$844 last year, saving you approximately \$295 in tax for the year.

RETIREMENT INCOME AND PLANNING

- Mrs. Sample earned \$37,596 after expenses working in her LLC. You may want to consider establishing a retirement plan to shelter some of this income from tax today and provide tax-deferred growth into the future. For example, you could establish a SEP IRA, which would allow you to contribute approximately 20% of this income to a plan. Last year, you could have contributed approximately \$7,500, saving you approximately \$2,600 in tax today. A SEP IRA must be established and funded by the due date of your tax return, including extensions.