

## Tax Concerns

### Questions and Concerns:

- Do you know your current income tax bracket?
- Do you anticipate your income tax bracket will change in the future? Perhaps upon retirement?
- Are there other taxes of concern, such as alternative minimum taxes, capital gains or estate taxes?
- Where do you obtain tax information and advice?

Most individuals appreciate the rationale and benefits they receive as a result of taxes. Company often parts way on how tax dollars are spent. It is important to understand your tax situation and how government allows various strategies to reduce taxes. Still, tax concerns should not override sound judgment. For example, if you feel you owned low-cost based stock in a company that is struggling, then taxes should not be a consideration concerning whether or not to sell. The same goes to gifting to children to reduce estate taxes. If such gifts can cause further harm (alcoholism or drug addiction), most would care less about the tax benefit. Overall, general knowledge of your tax situation will help you save taxes and avoid tax missteps.

### Do you know your current income tax bracket?

There are four classes of tax brackets: single individuals, head of household, married but filing separately and married filing jointly. Below are tax rates for individuals filing single and married individual filing jointly. Your estimated tax bracket is based on income after personal deductions, standard deduction or itemized deductions. It is best to have your tax advisor inform you of your tax bracket. The tables below will give you a rudimentary estimate of your tax bracket.



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2011 Marginal Tax Rate for Individuals Filing Single					
If your taxable income is over:	But not over:			The tax is	Of the amount over
\$0	8500	-	+	10%	-
8,501	34,500	850	+	15%	8,500
34,501	83,600	4,750	+	25%	34,500
83,601	174,400	17,025	+	28%	83,600
174,401	379,150	42,449	+	33%	174,000
over 379,151		110,016	+	35%	379,150

  

2011 Federal Tax Marginal Tax Rate for Married Individuals Filing Jointly					
If your taxable income is over:	But not over:			The tax is	Of the amount over
\$0	17,000	-	+	10%	-
17,001	69,000	1,700	+	15%	17,000
69,001	139,350	9,500	+	25%	69,000
139,351	212,350	27,088	+	28%	139,350
212,301	379,150	47,514	+	33%	212,300
over 379,151		102,574	+	35%	379,150

If you are single and determine, after exemptions and deductions, that your taxable income is \$65,000; your tax bracket is 25%. That information is useful in many areas. For example, if you are thinking of contributing an additional \$100 per pay period to your company 401(k) retirement plan, the amount of Federal tax you will save is \$25. Knowing your tax bracket will also help you determine whether it is best to invest in taxable corporate bonds or tax-free municipal bonds.

In addition, New Mexico taxes have impact on financial decisions. Let's say for example a person who does not itemize deductions wants to know what their tax savings would be if they contribute \$100 per pay period to their 401(k). If their taxable income is \$65,000 then their New Mexico tax bracket would be 4.9%. They would save an additional \$4.90 along with the \$25 savings from federal tax.

2011 New Mexico Marginal Tax Rate					
If your taxable income is over:	But not over:	The tax is			Of the amount over
\$0	5,500	-	+	1.7%	-
5,501	11,000	94	+	3.2%	5,500
11,001	16,000	270	+	4.7%	11,000
Over 16,001		505	+	4.9%	16,000

### Do you anticipate your income tax bracket will change in the future? Perhaps retirement?

Tax advisors work with their clients to determine an optimal strategy to reduce taxes if there are changes in tax brackets from one year to another. For example, let's say a person was attending school full time in 2012, will graduate in December 2012 and start a job beginning January 2013. If this person

has control when to accept income or sell low basis stock, then 2012 would be the ideal. Often tax changes are a result of legislative changes and a tax advisor will recommend certain transaction depending on when such changes will go into effect.

Changes in one's income tax situation before retirement and after retirement may mean one retirement plan may be more tax efficient than another. For example if it is determined that one will be in a lower tax bracket upon retirement, then a traditional IRA or 401(k) would be preferable. If, for example, one will be expected to be in a higher tax bracket due to inheritance, then a Roth IRA or Roth 401(k) would be appropriate.

**Are there other taxes of concern, such as alternative minimum taxes, capital gains or estate taxes?**

If this is the case, then you run, not walk to a tax specialist. A tax advisor can work with you to review various strategies to reduce taxes as the law allows. In many cases, you can accomplish your financial goal along with tax efficiency.

**Where do you obtain tax information and advice?**

It is best to get information from the source. The IRS and NM Taxation and Revenue Department are such sources. They provide extensive information on their respective websites below:

Internal Revenue Service	<a href="http://www.irs.gov/">http://www.irs.gov/</a>
New Mexico Taxation & Revenue Department	<a href="http://www.tax.newmexico.gov/Pages/TRD-Homepage.aspx">http://www.tax.newmexico.gov/Pages/TRD-Homepage.aspx</a>

Although this information is valuable and useful, you also want to work with a tax advisor. A tax advisor will use the information as it applies to each client. An experienced tax advisor can run various tax scenarios and help a client determine a strategy that is suitable. Although recent advances in tax preparation software are remarkable, there is no substitute to a qualified tax advisor. The level of tax advisory service needed depends on the person. For some, a national tax preparation service provides well trained individuals to provide general advice. As the person's tax issues become more complicated, then a Certified Public Accountant (CPA) is required. For high net worth individuals a firm with various tax specialists should be considered.

**How can a financial planner help in addressing tax concerns?**

Financial planners are knowledgeable, however, they are generalists. Tax advice should be provided by a tax specialist who concentrates on a specific area of expertise. Unless the financial planner is also a CPA, they should defer to a CPA. In most cases, a financial planner is to a tax advisor as a blood lab technician and a radiology technician is to a specialized medical doctor. They provide the tax advisor information about their background, goals, net worth, cash flow analysis and other information to assist the tax advisor to determine the best tax strategy.



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