



McAdam

Financially Advanced™

Stephen Hodgetts
Tucker Roeder
Financial Advisor
District Manager

84 State St.
Suite 1040
Boston, MA 02109
Tel.: 857-263-7097
Fax: 857-277-1363
Email: s.hodgetts@mcadamfa.com

Welcome and Thank You!



Today's Agenda

- Income Tax Overview
- Future Tax Considerations
- Case Study
- Questions

Income Tax Overview

Brief Overview

Important Calculations to Consider:

- Total Income:
 - Wages, Self-Employed Income, Interest/Dividends, Capital Gains, Rental Income, etc.
- Adjusted Gross Income (AGI)
 - Calculated using Total Income Reported minus Above-the-Line Deductions
- Taxable Income
 - Calculated using AGI minus Itemized Deductions
- Modified Adjusted Gross Income (MAGI)
 - Calculated by adding certain deductions taken for AGI

Examples of AGI Deductions

- Retirement plan contributions
- Claiming Dependents
- Alimony
- Self-employed health insurance payments
- One-half of any self-employment taxes paid
- Health savings account deductions
- Educator expenses
- Moving expenses
- Deductions for domestic production activities

Examples of Itemized Deductions

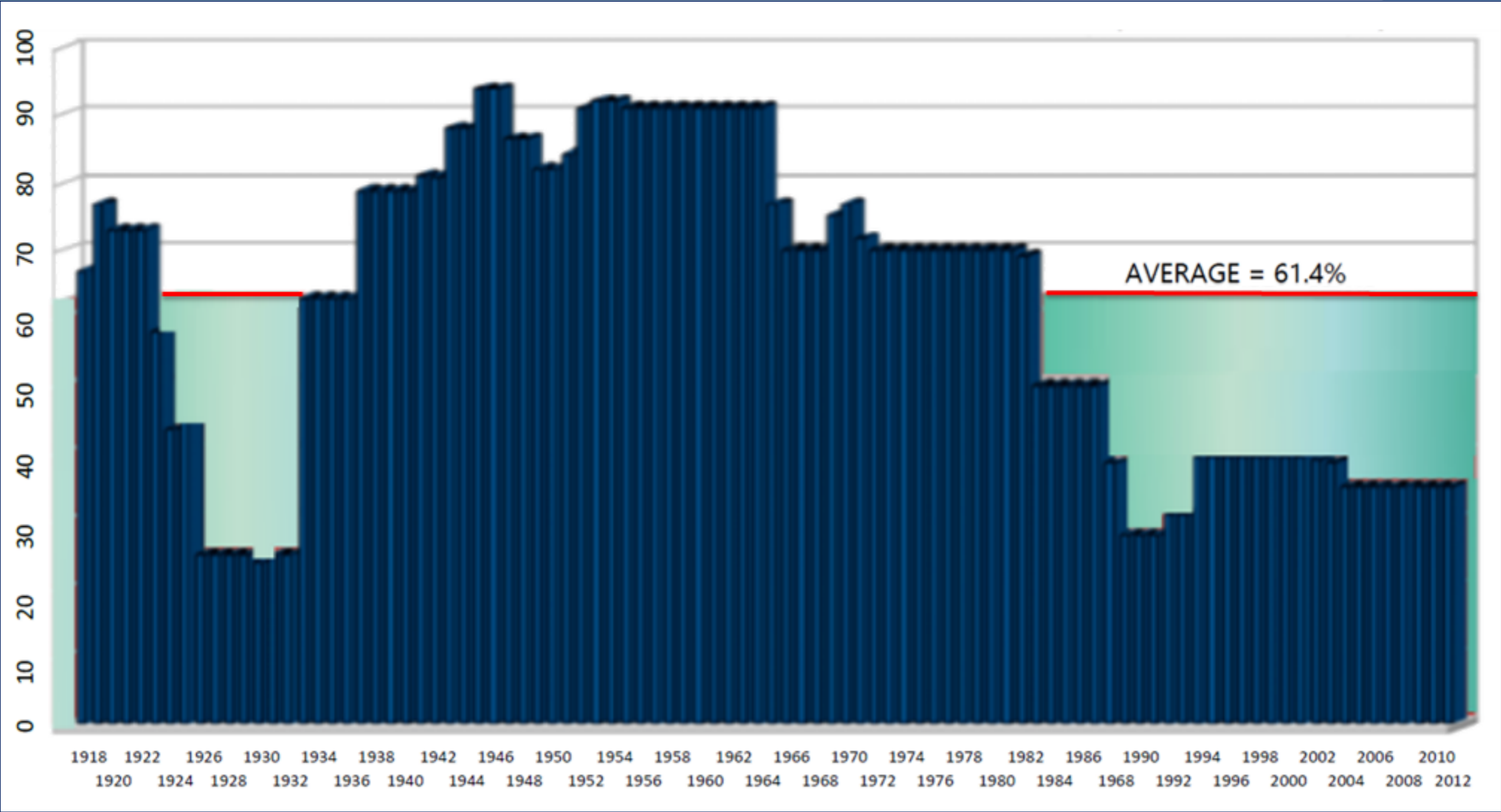
- Unreimbursed Medical and Dental Expenses
- Alimony
- Interest Expenses
- Taxes Paid
- Charitable Donations
- Casualty and Theft Losses
- Unreimbursed Job-Related Expenses
- Deductions for domestic production activities

Examples of MAGI Additions

- Student Loan Interest
- One-half self-employment tax
- Qualified tuition expenses
- Tuition and fees deduction
- Passive loss/gain
- IRA contributions, taxable social security payments
- Rental losses
- Any overall loss from a publicly traded partnership

Future Tax Considerations

Historical Tax Rates



Historical data courtesy of the Tax Foundation, 2001 L Street NW, Suite 1050, Washington, DC 20036, (202) 464-6200, www.taxfoundation.org



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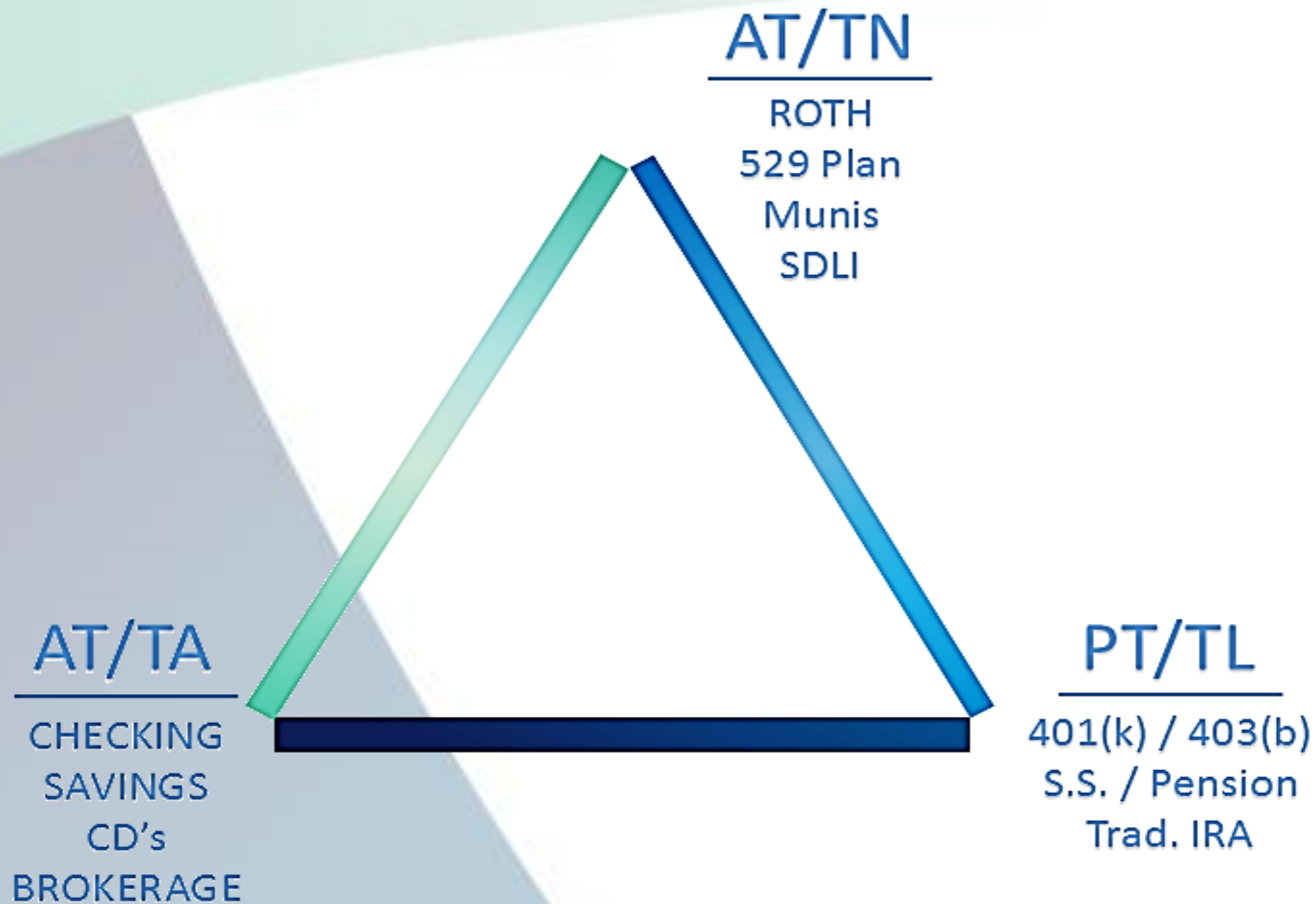
1980 Tax Structure Adjusted for Inflation

CPI Adjustment

1980 Income		Tax Rate	2015 Equivalent	
\$0	\$3,400	0%	\$0	\$9,768
\$3,400	\$5,500	14%	\$9,768	\$15,802
\$5,500	\$7,600	16%	\$15,802	\$21,835
\$7,600	\$11,900	18%	\$21,835	\$34,189
\$11,900	\$16,000	21%	\$34,189	\$45,968
\$16,000	\$20,200	24%	\$45,968	\$58,035
\$20,200	\$24,600	28%	\$58,035	\$70,676
\$24,600	\$29,900	32%	\$70,676	\$85,903
\$29,900	\$35,200	37%	\$85,903	\$101,130
\$35,200	\$45,800	43%	\$101,130	\$131,583
\$45,800	\$60,000	49%	\$131,583	\$172,380
\$60,000	\$85,600	54%	\$172,380	\$245,929
\$85,600	\$109,400	59%	\$245,929	\$314,306
\$109,400	\$162,400	64%	\$314,306	\$466,575
\$162,400	\$215,400	68%	\$466,575	\$618,844
\$215,400	and up	70%	\$618,844	and up

1980 income tax structure data from <http://taxfoundation.org/article/us-federal-individual-income-tax-rates-history-1913-2013-nominal-and-inflation-adjusted-brackets>. Tax brackets have been adjusted upwards using a CPI adjustment of 2.87 to adjust for inflation. This is for conceptual and informational use only. This does not represent a recommendation to buy a specific product or investment. McAdam, LLC is not a tax advisory firm thus this does not constitute tax advice. Any tax decisions should be made with your tax professionals.

Understanding Tax Diversification



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Roth Conversion

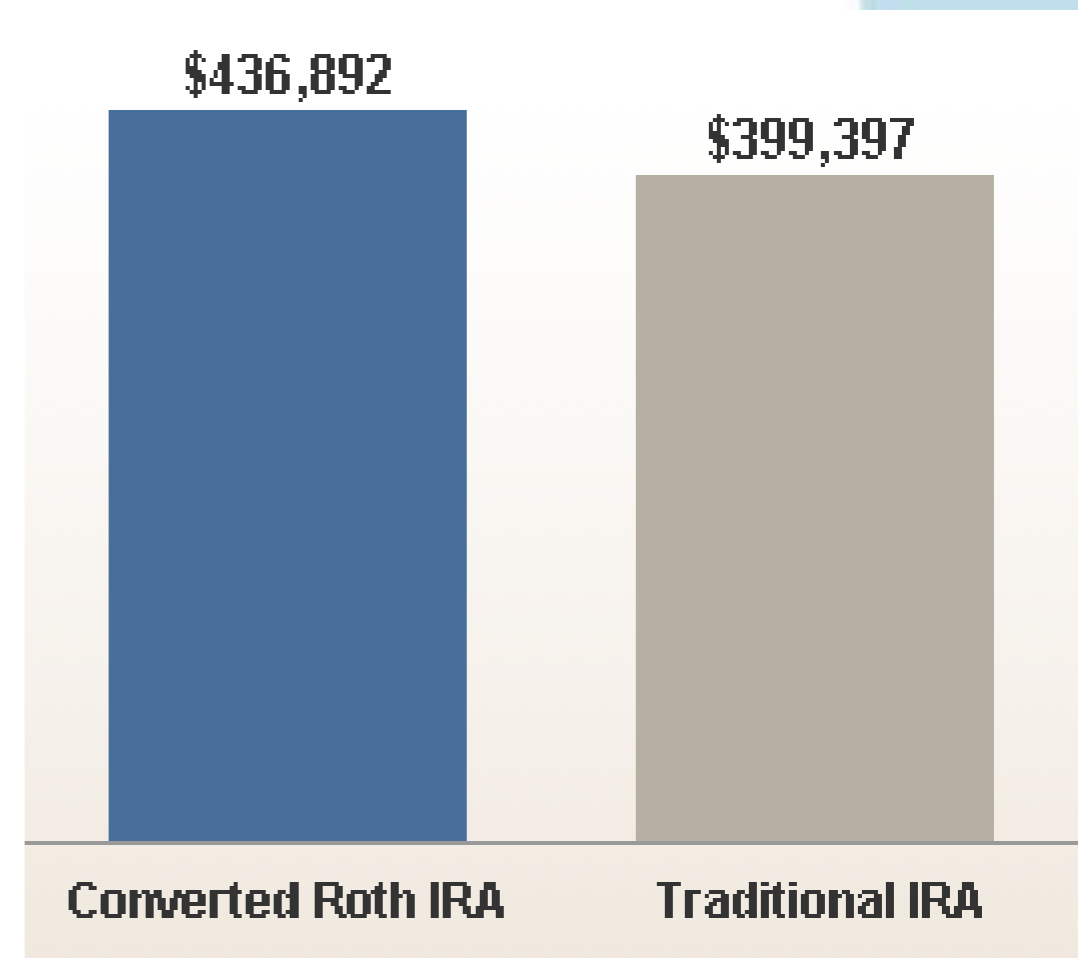
Factors to Consider

- Amount to Convert
- Current Income Tax Bracket
- Future Income Tax Bracket
- Other Tax-Free Assets
- Other Taxable Accounts
- Time Horizon
- Legacy Effect

Roth Conversions

Rules and Tax Consequences:

- 60 day rollover window
- Contributions are Taxable
 - Ex. Client A converts a \$250,000 IRA to Roth IRA in 2015
 - \$250,000 added to Client A's Income
 - Federal Tax Rate: 32% at withdrawal
 - State Tax Rate: 5% at withdrawal
 - Rate of Return: 6.4% for 15 yrs



Managing taxes due

Based on the amount you wish to convert, you would owe approximately **\$75,704** in federal income taxes.

Based on the information you

provided, you would owe approximately **\$12,500** in state income taxes the year that you convert.

Social Security

How is Social Security Taxed?

TAXATION OF SOCIAL SECURITY BENEFITS

Provisional Income =

$\frac{1}{2}$ Social Security Benefits + Modified Adjusted Gross Income

SINGLE	0% of Benefits are Taxable	MARRIED, FILING JOINTLY
\$0-\$25K	0-50% of Benefits are Taxable	\$0-\$32K
Above \$25K	7-85% of Benefits are Taxable	Above \$32K
Above \$34K		Above \$44K

Required Minimum Distributions

Required Minimum Distributions

What are RMDs?

Minimum amounts that a retirement plan account owner must withdraw annually starting with the year he or she reaches 70.5 years of age

What accounts are exposed to RMDs?

- All employer sponsored plans
 - 401(k) / 403(b)
 - 457 plans
 - Profit-sharing plans
- IRA-based plans
 - Traditional IRAs
 - SEP IRAs
 - SIMPLE IRAs

RMD Calculation:

All Qualified (pre-tax) Dollars
RMD Factor (based on life expectancy)

Case Study

John Smith, Scenario A

- Age: **55**
- Annual Income: **\$175,000**
- Pre-Tax Account Balance at 55: **\$500,000**
- Annual Rate of Return: **6%**
- Maximum contribution to Pre-Tax account: **\$24,000**
- Company Match: 100% of John's contribution up to 3% of his annual income: **\$5,250**
- Pension and Social Security Income: **\$50,000/year**
- Retirement Age: **70**

John Smith, Scenario B

- Age: **55**
- Annual Income: **\$175,000**
- Pre-Tax Account Balance at 55: **\$500,000**
- Annual Rate of Return: **6%**
- 6% contribution to Pre-Tax account: **\$10,500**
- Company Match: 100% of John's contribution up to 3% of his annual income: **\$5,250**
- Pension and Social Security Income: **\$50,000/year**
- Retirement Age: **70**

John Smith

Scenario A

Total Taxes Paid at
age 90: **\$685,000**

Scenario B

Total Taxes Paid at
age 90: **\$555,000**

Total Tax Savings

\$130,000

(\$56,700)

\$73,300

Thank You!



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