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# Income Tax Strategies Checklist

- Company Pensions & Profit Sharing Plans
- 401(k) Retirement Plan
- SIMPLE IRA
- IRA - Roth, Traditional
- Catch-up contributions
- Coverdell Education Savings Accounts (Education IRAs)
- Keogh/SEP Retirement Plan
- Deferred Compensation Plans
- SERP
- 403(b) annuities
- Sale and Leaseback
- Depletion Allowance
- Depreciation Allowance
- Tax-Deferred Annuities
- Life Insurance Cash Values, Death Benefits (within allowable limits)
- Ownership of Property (Title)
- Revise Estimated Tax Payments
- Medical Expenses
- Casualty Losses
- Incorporate
- Business ownership
- Second Home Deductions
- Installment Sales
- Timing of Income and Expenses
- Subchapter S Corporation
- Uniform Gifts to Minors
- Employ Family Members
- Family Partnerships
- Investments That Produce Tax-Exempt Income
- All types of tax credits (childcare, rehab., etc.)
- Certain employer paid fringe benefits
- Hobby-Business Losses (offsetting gains only)
- Charitable Contributions
- Fiscal vs. Calendar Tax Year
- Lease vs. Purchase Equipment, Cars, etc.
- Business Use of Part of Your Home (strict IRS rules)
- Travel Deductions
- Use of Revocable and Irrevocable Trusts
- Incentive for higher education (Hope Scholarship, life time learning credit, student loan interest deduction)

Other Tax Savings Strategies: \_\_\_\_\_

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# Marginal Income Tax

## Progressive Tax Rates

Taxpayers in the United States are faced with what are commonly called "progressive" income tax rates. In simple terms, this means that the more you earn, the higher the rate of income taxes you pay. This is distinguished from a flat tax, which applies the same percentage of tax to all amounts.

The percentage of each dollar received that goes to pay taxes does not remain level because as taxable income increases, the percentage paid in income taxes also increases.

The Internal Revenue Code defines specific income "brackets." The size of these income brackets, and the associated federal income tax rates, varies depending on the type of taxpayer: Individual, Corporation, Estate, or Trust and filing status: Single, Married Filing Joint, etc.

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| <b>2010<br/>Single</b>           |                     |                    |                           |
|----------------------------------|---------------------|--------------------|---------------------------|
| <u>If taxable income is over</u> | <u>but not over</u> | <u>the tax is</u>  | <u>of the amount over</u> |
| \$ 0                             | \$8,375             | 10.0%              | \$ 0                      |
| 8,375                            | 34,000              | \$837.50 + 15.0%   | 8,375                     |
| 34,000                           | 82,400              | 4,681.25 + 25.0%   | 34,000                    |
| 82,400                           | 171,850             | 16,781.25 + 28.0%  | 82,400                    |
| 171,850                          | 373,650             | 41,827.25 + 33.0%  | 171,850                   |
| 373,650                          | No Limit            | 108,421.25 + 35.0% | 373,650                   |

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## Marginal Income Tax Rates

The table above clearly shows the percentage increase in tax rates as taxable income increases. This is referred to as the "marginal" tax rate, or what you pay "at the margin" (on the last dollar you receive). These marginal rates can also be higher through indirect higher taxes caused by such items as the disallowance of a portion of itemized deductions, the phase-out of personal exemptions, and loss or taxation of Social Security benefits.

You can see that tax saving techniques which lower taxable income will reduce taxes at the top rate and not at the bottom rate. Reviewing the tax table also allows you to determine if you're being taxed at low, middle, or high rates, and how much additional income you can receive before moving into the next bracket.

# Federal Income Tax Rates

## *For Tax Year 2010*

**Single**

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|----------------------------------|---------------------|--------------------|---------------------------|
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Source: Internal Revenue Service