

Income Tax Facts

Federal and state income taxes will have a major impact on your life, beginning with your first year of residency. Consider the following:

Last Year's Tax Freedom Day-April 23, 2008

Single Tax Rates

<u>Taxable Income</u>	<u>Tax Rate</u>
\$ 0-\$ 8,025	10.0%
\$ 8,026-\$ 32,550	15.0%
\$ 32,551-\$ 78,850	25.0%
\$ 78,851-\$164,550	28.0%
\$164,551-\$357,700	33.0%
\$357,701 & Over	35.0%

Married Filing Jointly Tax Rates

<u>Taxable Income</u>	<u>Tax Rate</u>
\$ 0-\$ 16,050	10.0%
\$ 16,051-\$ 65,100	15.0%
\$ 65,101-\$131,450	25.0%
\$131,451-\$200,300	28.0%
\$200,301-\$357,700	33.0%
\$357,701 & Over	35.0%

<u>AGI Income Rank</u>	<u>AGI</u>	<u>Share of Federal Tax Paid</u>
Top 1%	Above \$388,806	39.89%
Top 5%	Above \$153,542	60.14%
Top 10%	Above \$108,904	70.79%

Historically, marginal tax rates have been as high as 91%. Combined with Indiana's state and county tax rates, individuals would have paid ninety-five cents on every dollar of income in this bracket.

Limited Time Opportunities

You will have opportunities during the next few years to do some things that you will not be able to do later in your working career. There are income limitations on Roth IRAs, Traditional IRAs, the deductibility of student loan interest and other provisions of the Internal Revenue Code.

	Traditional IRA	Roth IRA
	<u>AGI Limitations</u>	<u>AGI Limitations</u>
Married Filing Jointly	\$85,000-\$105,000	\$159,000-\$169,000
Single	\$53,000-\$ 63,000	\$101,000-\$116,000

	Student Loan Interest
	<u>AGI Limitations</u>
Married Filing Jointly	\$115,000-\$145,000
Single	\$ 55,000-\$ 70,000

	Lifetime Learning Credit
	<u>AGI Limitations</u>
Married Filing Jointly	\$96,000-\$116,000
Single	\$48,000-\$ 58,000

Taking advantage of these and other limited time opportunities can lead to significant tax savings.

Roth IRA Example

Year	Investment	Earnings @ 10%	Balance
1	3,000.00	300.00	3,300.00
2		330.00	3,630.00
3		363.00	3,993.00
4		399.00	4,392.00
5		439.00	4,831.00
6		483.00	5,314.00
7		531.00	5,845.00
8		584.00	6,429.00
9		642.00	7,071.00
10		707.00	7,778.00
11		777.00	8,555.00
12		855.00	9,410.00
13		941.00	10,351.00
14		1,035.00	11,386.00
15		1,138.00	12,524.00
16		1,252.00	13,776.00
17		1,377.00	15,153.00
18		1,515.00	16,668.00
19		1,666.00	18,334.00
20		1,833.00	20,167.00
21		2,016.00	22,183.00
22		2,218.00	24,401.00
23		2,440.00	26,841.00
24		2,684.00	29,525.00
25		2,952.00	32,477.00
26		3,247.00	35,724.00
27		3,572.00	39,296.00
28		3,929.00	43,225.00
29		4,322.00	47,547.00
30		4,754.00	52,301.00
31		5,230.00	57,531.00
32		5,753.00	63,284.00
33		6,328.00	69,612.00
34		6,961.00	76,573.00
35		7,657.00	84,230.00
36		8,423.00	92,653.00
37		9,265.00	101,918.00
38		10,191.00	112,109.00
39		11,210.00	123,319.00
40		12,331.00	135,650.00

Common Tax Traps

Claiming Too Many Exemptions on the W-4

In order to increase take-home pay, people will claim too many exemptions on their W-4. The more exemptions claimed, the less federal, state and county income tax is withheld. While this helps monthly cash flow it leads to a lousy April 15 and large balances due on the income tax returns.

Moonlighting (Working as an Independent Contractor) Without Proper Tax Planning and Record-Keeping

Early in their careers, many medical professionals will take on extra work as an independent contractor to supplement their regular income. As an independent contractor, they are responsible for all of their own taxes and are considered self-employed. In addition to federal, state and county income taxes, they will also have to pay self-employment taxes, which can run as high as 15.3%. Self-employed individuals pay their taxes in quarterly installments and can incur significant penalties if the quarterly estimates are not paid. Because of the high tax rates self-employed people pay, record-keeping is extremely important because taxes are paid on self-employed income minus the expenses incurred in producing the income. Again, not paying the quarterly estimates when due and not keeping the records needed to document expenses can lead to a lousy April 15.

Working for Multiple Employers With Too Little Tax Withheld From Each One

One of my clients, a resident anesthesiologist, worked part-time for several clinics and hospitals. Because he earned a relatively small amount from each employer, very little income tax was withheld. From an overall perspective, however, his earnings for the year put him in a high tax bracket and led to a large balance due on April 15 because of the minimal income tax withholding.

Common Deductions

Books & Fees	Yes	Yes
Mileage to Classes	Maybe	Yes
Mileage	No	Yes
Reference Books	Yes	Yes
Internet Charges (Used for Work)	Yes	Yes
Licenses and Testing	Yes	Yes
Cell Phone/Pager (Used for Work)	Yes	Yes
Office Supplies/Furniture/Equipment	Maybe	Yes
Home Office Expenses	Maybe	Yes
Liability Insurance	Yes	Yes
Tax Planning & Preparation Services	Yes	Yes
Travel to Conferences/Seminars	Yes	Yes
Job Hunting Expenses	Yes	Yes
Professional Dues	Yes	Yes
Journal/Magazine Subscriptions	Yes	Yes

The problem with the deductibility of employee business expenses is that you can only deduct these expenses to the extent that they exceed 2% of your adjusted gross income.

All of your expenses for self-employment are fully deductible.