

# Financial Planning Fundamentals Taxes and Insurance for Dancers

July 12, 2016



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# Taxes

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# Federal Tax Calculation

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$$\begin{array}{r} \text{Gross Income} \\ - \text{Adjustments} \\ \hline = \text{Adjusted Gross Income (AGI)} \\ - \text{Standard/Itemized Deductions} \\ - \text{Personal Exemptions} \\ \hline = \text{Taxable Income} \\ \\ \text{Taxable Income} \\ \times \text{Tax Rates from Tables} \\ \hline = \text{Income Tax Due} \\ + \text{Other Taxes} \\ - \text{Tax Credits} \\ - \text{Withholdings/Estimated Payments} \\ \hline = \text{Net Tax Due/Income Tax Refund} \end{array}$$

# Gross Income and Adjustments

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- ▶ W-2 wages
  - ▶ Pay minus pre-tax deductions (medical, dental, vision, 401k)
- ▶ 1099 income (contractor/self-employed) – Schedule C
  - ▶ No deductions – liable for own taxes
  - ▶ Receive if total pay over \$600
  - ▶ Liable for self-employment tax too -15.3% up to SS wage base
- ▶ Interest and dividends; capital gains on investments
- ▶ All other taxable income (rent, net business income)
- ▶ Adjustments (aka Above “the line” deductions)
  - ▶ Deductions allowed whether you itemize or take a standard deduction
  - ▶ Examples: Deductible IRA contributions, Student loan interest, Health Savings Account contributions, self-employed insurance premiums for medical and dental coverage

# Qualifying Performing Artist

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- ▶ If worked two dance related jobs for at least \$200 from each employer and spent 10% of what is earned on your performance artist job and have AGI of \$16,000 or less
- ▶ Allows you to take 100% of the expense as a deduction on line 24 of Form 1040
- ▶ Complete Form 2106 or Form 2016-EZ
  - ▶ See Chapter 6 of IRS Pub 453
  - ▶ Must keep receipts
- ▶ No need to itemize deductions - not subject to 2% AGI rule

# 2016 Standard vs. Itemized Deductions

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## *Standard Deductions*

- ▶ Single \$ 6,300
- ▶ Married Filing Jointly (MFJ) \$ 12,600
- ▶ Married Filing Separately \$ 6,300
- ▶ Head of Household \$ 9,300

## *Itemized Deductions*

- ▶ Medical and dental expenses above 10% of AGI
- ▶ Mortgage interest expense
- ▶ State, local, and real estate taxes
- ▶ Charitable contributions
- ▶ Investment interest expense
- ▶ Others

### Action Step

- ▶ Use the greater of your itemized deductions or your standard deduction

# Do's and Don'ts of Deductions

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## ▶ DEDUCTIBLE

- ▶ **Medical** – if program (incl. health club dues, nutritional supplements; weight loss program, smoking cessation) is recommended and generally prescribed by a doctor for treatment for a specific condition (e.g. hypertension, heart disease)
- ▶ **Subject to 2% AGI floor**
  - ▶ business expense incl. travel, 50% of meals and entertainment, supplies, small tools, home office deduction, hobby expenses (up to income), job-hunting, job-related education, medical exams required by employer, work clothes and uniforms not suitable for street wear.
  - ▶ tax preparation or assistance fees; investment expenses; credit card convenience fee for paying taxes; union and professional dues
  - ▶ education expenses – required by employer, law/governmental agency, or maintain or improve skills required in performing current job.
- ▶ **KEEP ALL RECEIPTS; THIS LIST IS NOT ALL INCLUSIVE**

## ▶ NON-DEDUCTIBLE

- ▶ **Medical** – cosmetic surgery not related to an accident, congenital abnormality, disease; dancing lessons or teeth whitening even if recommended by a doctor/dentist
- ▶ **Job-hunting expenses** in a different line of work
- ▶ **Investment fees** on an IRA, SEP, SIMPLE or other self-employed qualified plan paid from within the account
- ▶ **Education expenses** – not for returning to a job or profession, meeting the minimum requirements for a trade or business, qualify for a new job, trade or business



# 2016 Personal Exemptions and Tax Rates

- ▶ \$4,050 exemption per person
  - ▶ You, Spouse, Eligible child, Other qualified financial dependent
- ▶ Phase-outs – 2016
  - ▶ Single: \$259,400 - \$381,900
  - ▶ MFJ: \$311,300 - \$433,800
  - ▶ HoH: \$285,350 - \$407,850
  - ▶ MFS: \$155,650 - \$216,900
- ▶ Tax Rates

	MFJ	Single
10%	\$0 - \$18,550	\$0 - \$9,275
15%	\$18,550 - \$75,300	\$9,275 - \$37,650
25%	\$150,300 - \$151,900	\$37,650 - \$91,150
28%	\$151,900 - \$231,450	\$91,150 - \$190,150
33%	\$231,450 - \$413,350	\$190,150 - \$413,350
35%	\$413,350 - \$466,950	\$413,350 - \$415,050
39.6%	\$466,950 +	\$415,050 +

## Note

- ▶ Other filing status' include: Qualifying widower (same rates as MFJ), Married filing single, and Head of household

# Know your numbers: Personal income tax

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## Effective tax rate

- $\text{Total Tax Due} \div \text{Taxable Income}$

## Marginal tax rate

- The highest tax bracket you reach this year, which will apply to your 'next' dollar of income

## Withholding

- Current W-4 withholding status, exemptions

## Tax-advantaged savings

- Roth or Regular IRA, 401(k), SEP, SIMPLE plans
- Know the AGI and contribution limits

## Action steps

- Update your W-4 if you owe, or get a large refund
- Review your 1040 line-by-line
- Check your last 3 years' returns for errors
- Consider the advantages of Roth vs. Regular

# Which is better? Deductions VS. Credits

A. \$2,000 Tax Deduction

B. \$2,000 Tax Credit

Earnings	\$50,000	\$50,000
Deductions	\$2,000	\$0
Taxable Income	\$48,000	\$50,000
Tax	\$5,219	\$5,719
Tax Credit	\$0	\$2,000
Net Tax	\$5,219	\$3,719

↑  
\$1,500  
↑

# Tax Credits

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- ▶ Refundable: If credit exceeds your tax liability, you can still receive a refund
- ▶ Non-Refundable: Ability to reduce your taxes, but not below \$0

# Personal Refundable Tax Credits

- ▶ The refundable portion of the child tax credit ("additional child tax credit")
  - ▶ Up to \$1,000 per child under age 17
  - ▶ Refundable amount up to 15% of earned income
- ▶ The earned income credit
  - ▶ Eligibility – earned income and adjusted gross income within

## Earned Income and AGI Limits

[Earned income](#) and adjusted gross income (AGI) must each be less than:

If filing...	Qualifying Children Claimed			
	Zero	One	Two	Three or more
Single, Head of Household or Widowed	\$14,820	\$39,131	\$44,454	\$47,747
Married Filing Jointly	\$20,330	\$44,651	\$49,974	\$53,267

- ▶ Max credit of \$506 - \$6,269 based on income, filing status and number of children

The maximum amount of credit for Tax Year 2015 is:

- \$6,242 with three or more qualifying children
- \$5,548 with two qualifying children
- \$3,359 with one qualifying child
- \$503 with no qualifying children

- ▶ Excess tax withholdings

# Personal Non-Refundable Tax Credits

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- ▶ The adoption tax credit
  - ▶ Up to \$13,460 per child
- ▶ The child and dependent care credit
  - ▶ Reimbursed up to \$3,000 of includable expenses paid for 1 child or \$6,000 for 2 or more children towards credit calculation
  - ▶ The credit percentage ranges from 20-35% based on income
- ▶ The tax credit for the elderly or the disabled
  - ▶ Up to \$1,125 if over age 65 or disabled
- ▶ Tax credits for energy-saving home improvements
- ▶ The Hope credit (the American Opportunity tax credit)
  - ▶ Up to \$2,500 for each of first 4 years of higher education
- ▶ The Lifetime Learning credit
  - ▶ Up to \$2,000 and available for all years of education
- ▶ The tax credit for IRAs and retirement plans (Retirement Saver's credit)
  - ▶ Up to 50% of \$2,000 (MFJ)
- ▶ The child tax credit (nonrefundable portion)

# Key Considerations In Tax Planning

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Defer

Shift

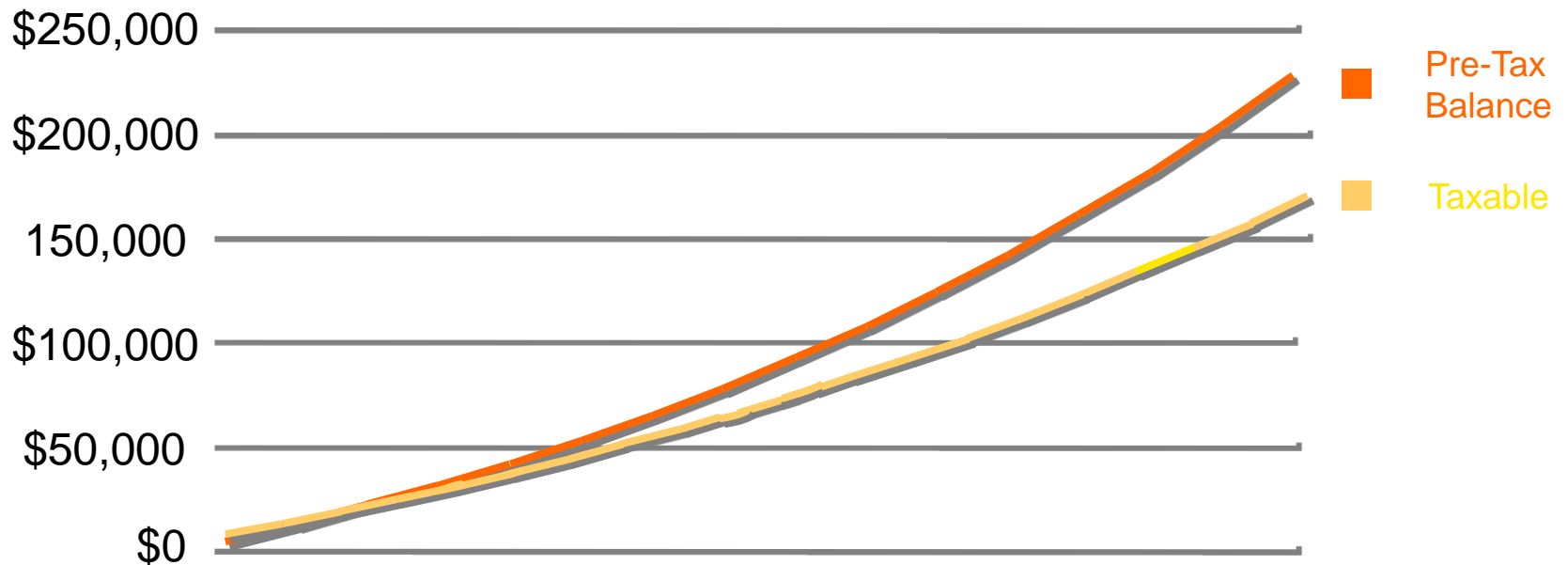
Deduct

Exclude

Comply

# Defer: Pre-Tax Savings And Tax-Deferred Growth

\$5,000 Annual Pre-Tax Investment for 20 Years  
8% Rate of Return  
33% Tax Rate



Pre-Tax Balance:	\$153,300
Taxable Balance:	<u>(115,100)</u>
Advantage to Pre-Tax	\$ 38,200



# Shift: Investment Income

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## ▶ Capital Gains

- ▶ Short Term: Investment held one year or less; Gain is taxed at ordinary income tax rates
- ▶ Long Term: Investment held more than one year; Gain is taxed at lower capital gains rate up to 20% (generally 0% or 15%)

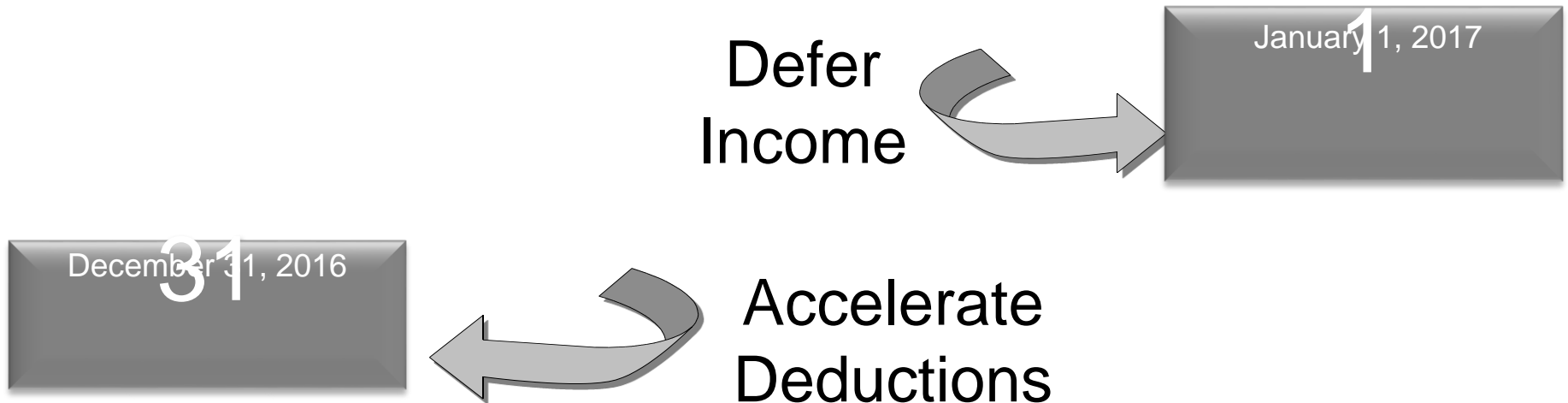
## ▶ Dividends

- ▶ Non-qualified dividends: Doesn't meet the 61-day holding period; Taxed at ordinary income tax rates
- ▶ Qualified dividends: Meet the holding period and paid by a domestic/qualified foreign corporation; Taxed at lower qualified dividend rate up to 20% (generally 0% or 15%)

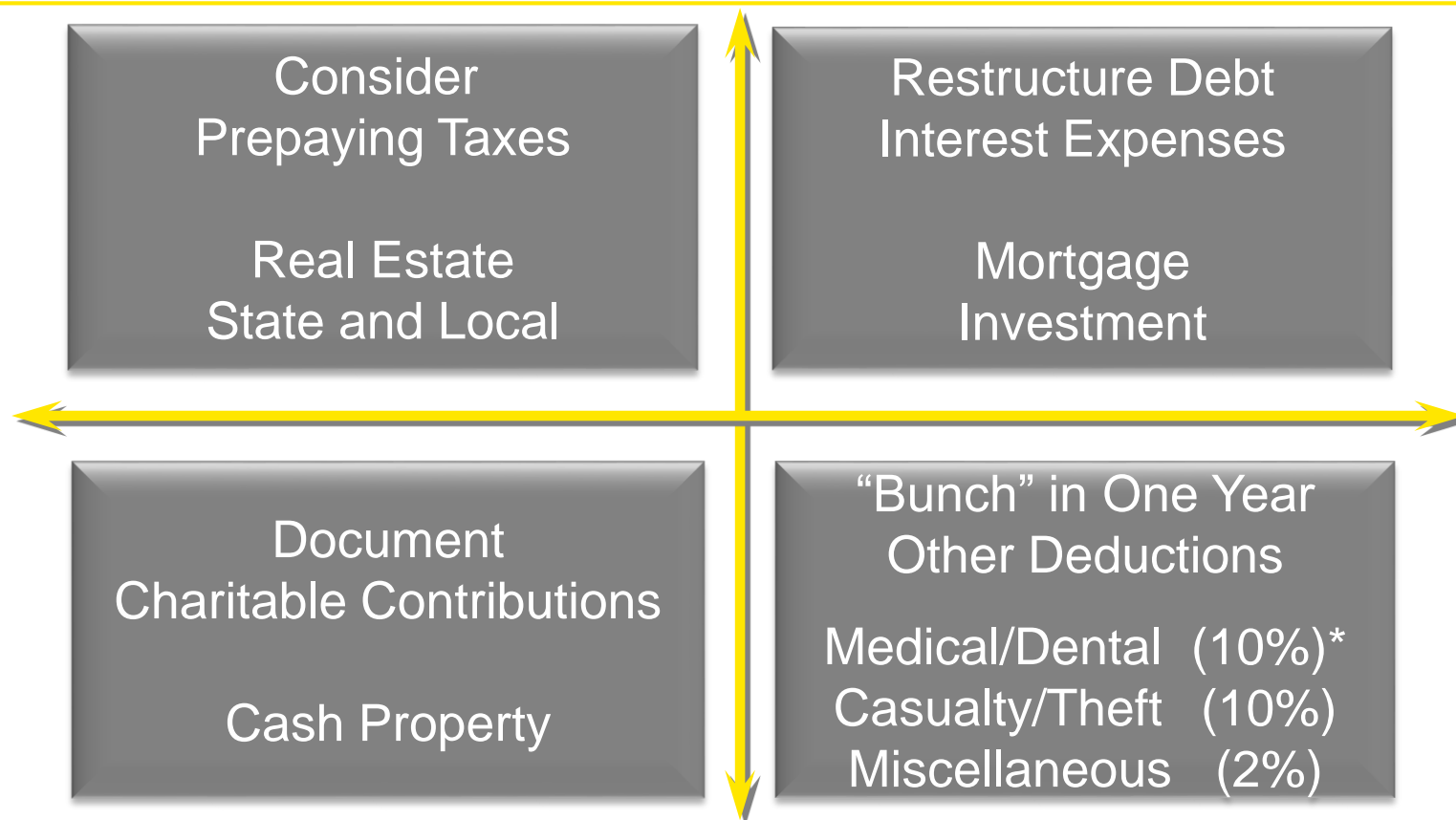
# Timing of Income

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- ▶ Rental property
- ▶ Self-employment income
- ▶ Capital gains



# Deduct: Maximize Itemized Deductions



## Action Step

- ▶ Consider bunching expenses or donations into one year

\*\*Remains 7.5% for those 65 or over through 2016

# Exclude: Non-Taxable Income

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- ▶ Roth IRA distributions
- ▶ Municipal bond interest
- ▶ Distributions from certain education savings vehicles
  - ▶ 529 plans
- ▶ Flexible Spending Accounts (FSAs)
  - ▶ Healthcare
  - ▶ Dependant care
- ▶ Healthcare Savings Account (HSA)
- ▶ Home sale gains

# Comply: Withholdings Safe Harbor

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- ▶ To avoid the underpayment penalty, you must withhold the lesser of:
  - ▶ 90% of the tax shown on the return
  - ▶ 100% of the tax shown on the prior year tax return
    - ▶ 110% if prior year AGI was over \$75,000 Married filing Separately and \$150,000 for all others
  - ▶ Penalty does not apply if tax due is less than \$1,000
  
- ▶ Withholding determined by:
  - ▶ Pay frequency
  - ▶ Filing status - Single has more withheld than married
  - ▶ Allowances - Not to be confused with exemptions
    - ▶ Number claimed on W-4 tells payroll how much to withhold
    - ▶ More allowances means less withholding
  - ▶ Additional amount, as a \$, to withhold

# Pros & Cons of Tax Refund

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## Pros

- ▶ A method of forced saving
- ▶ Lump sum payment available for goals
- ▶ Makes you feel like you “did good” on your taxes

## Cons

- ▶ Can impact monthly cash flow
- ▶ Could be used during the year
- ▶ Lost opportunity to earn interest

# Tax Tips

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- ▶ Create an organized filing system for receipts
- ▶ Record all auditions, rehearsals and work schedules
- ▶ Save programs and shows you were in
- ▶ May be able to deduct “research” – videos, DVDs, some concerts/shows if can justify needed to keep up with trends
- ▶ Log, log, log, everything

# Forms you may need to file

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- ▶ Schedule C - used to report 1099's received
  - ▶ Form 8829 – home office deduction
  - ▶ 1040-ES – pay quarterly estimated taxes (if liability >\$1,000)
  - ▶ Form 2106 – Performing Artist deduction
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- ▶ If have both W-2 and 1099 income need to allocate expenses between the two types of income



# Insurance



# Life insurance

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## Expenses at death

- Estate taxes and costs, Pay off debts/mortgage, Pre-fund education, Fund other goals

## Ongoing expenses

- Living expenses for survivors

## Resources available

- Survivor's income, Pension benefits, Social Security, Savings & investments, Life insurance, other resources

## If I were to die...

- What resources will you have immediately, and long-term

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- What resources will I have immediately, and long-term

# Disability Income Insurance

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## Why is disability insurance so important?

- ▶ Disability disrupts your most valued asset: earning an income
- ▶ Consider:
  - ▶ Disability causes 16 times more home foreclosures than death\*
  - ▶ From ages 30-64, you are 6 times more likely to become disabled than die before age 65\*\*
  - ▶ The Social Security Administration estimates that between 1 and 4 of 20 year old workers will become disabled before reaching retirement age.\*\*\*

\* National Safety Council, 2004

\*\* Financial Industry Regulatory Authority, 2007

\*\*\* SSA Publication Number 05-10029, May 2015

# Will You Be Disabled?

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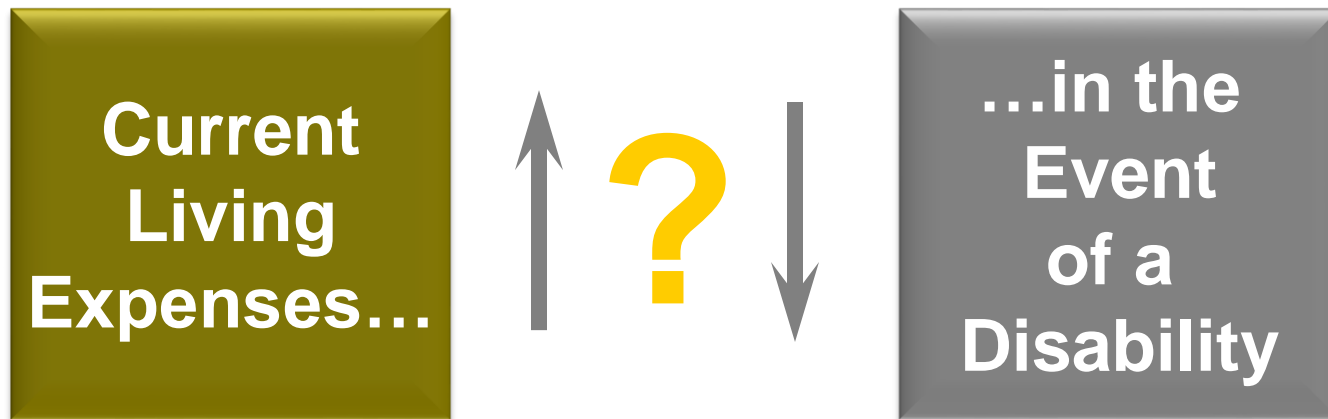
Odds of being disabled for at least 90 days during your working years

Current Age	Men	Women
35	21%	28%
45	18%	23%
55	14%	15%

Source: National Association of Insurance Commissioner's Individual Disability ;Table A

# What Do You Need If You Become Disabled?

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# Additional Expenses Due To Disability

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- ▶ Living Assistance
  - ▶ Nurse
  - ▶ Child care
  - ▶ Home maintenance
  
- ▶ Medical Expenses
  - ▶ Equipment
  - ▶ Treatment
  
- ▶ Home Improvements
  - ▶ Wheelchair ramps
  - ▶ Widening doorways
  - ▶ Safety rails

# What Will You Have If You Become Disabled?

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- ▶ Emergency Funds
- ▶ Investment Income
- ▶ Spouse/Partner Income
- ▶ Social Security Disability Income Insurance
- ▶ Disability Income Insurance through your Employer
- ▶ Other Sources of Income

# Social Security Disability Payments

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- ▶ Must meet the SS definition of “disabled”
- ▶ Waiting period of 5 full calendar months
- ▶ Eligible family members:
  - ▶ You (if you earned enough credits while working)
  - ▶ Spouse at 62 or older
  - ▶ Spouse with a child under age 16 or disabled before 22
  - ▶ Child under 18, maybe longer if disabled or in school

## Action Step

- ▶ Review your Social Security Statement to see what disability benefits would be payable. 800-772-1213 or [www.ssa.gov](http://www.ssa.gov).



# Disability Income Plans

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- ▶ State Provided Plans
  - ▶ Workers' Compensation
  - ▶ State Disability Insurance Benefits
    - ▶ CA, HI, NJ, NY, RI
- ▶ Employer Provided Disability Plans
  - ▶ Short-Term Disability
  - ▶ Long-Term Disability
- ▶ Private Disability Plan

# Additional Disability Income Insurance Policy Considerations

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- ▶ Benefit amount
- ▶ Social Security offset provisions
- ▶ Financial stability of the insurer
- ▶ Waiting period before benefits begin
- ▶ Definition of total disability
- ▶ Who pays the premium affects taxability of benefits

# Benefit Amount

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- ▶ Rule of thumb: purchase all you can
- ▶ Maximum coverage typically limited to 70%-80% of pay
- ▶ Be sure to understand the definition of “pay”
  - ▶ Just base pay?
  - ▶ Bonus/commissions?
- ▶ Typically there is a Social Security offset
  - ▶ Example: Annual pay of \$100,000 and 60% replacement
    - ▶ Social Security benefit: \$20,000
    - ▶ Insurer pays:  $\$60,000 - \$20,000 = \$40,000$

# Waiting Period

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- ▶ If have STD; choose waiting period that starts when STD ends
- ▶ If don't have STD; consider at least a 90 day waiting period if you have a sufficient emergency fund

# Definition of Disabled

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- ▶ Total disability coverage
  - ▶ Own occupation
    - ▶ Can't do your normal duties
  - ▶ Any occupation
    - ▶ Can't perform duties of any job
  - ▶ Split definition
    - ▶ “Own occupation: for initial period; then “any occupation”
- ▶ Residual disability coverage
  - ▶ Pay benefits if partially disabled; benefit paid based on amount of lost income
- ▶ Partial disability coverage
  - ▶ Similar to residual coverage, but benefit amount not based on amount of lost income

# Taxation of Benefits

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- ▶ If employer provided or you pay pre-tax: Taxed as ordinary income
- ▶ If you pay after-tax: Tax-free
- ▶ Rule of thumb: Pay for disability insurance yourself (while you can afford it) to receive tax-free benefits (when you need it most)
  
- ▶ 0%-85% of Social Security benefits taxed

# Financial Education Resources



# Resources

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- ▶ [www.irs.gov](http://www.irs.gov)
- ▶ [www.gsa.gov](http://www.gsa.gov)
- ▶ [www.mint.com](http://www.mint.com)
- ▶ [www.creditkarma.com](http://www.creditkarma.com)
- ▶ [www.bankrate.com](http://www.bankrate.com)



# Questions?

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