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TAX PLANNING YEAR-ROUND

GUIDE FOR WORKING PARENTS



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- GO 2 GUY -

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INTRODUCTION

Hey there, hard-working parents! We know juggling work, family, and everything else life throws your way can be challenging. Add 'tax planning' to that mix, and it might seem overwhelming. But, don't worry—you've found the right place. Welcome to our Tax Planning Year-Round Guide. We've crafted this guide just for you, to help you navigate the world of taxes without missing a beat. Whether you're a tax novice or a seasoned pro, this guide will provide essential tips, advice, and strategies to ensure you're making the most out of your hard-earned income all year round. So, let's dive in and make tax planning less taxing!



QUICK RECAP OF TAX BASICS & THE IMPORTANCE OF TAX PLANNING

Let's kick things off with a quick recap of the tax basics. Taxes are contributions we all make to the government to fund public goods and services—schools, roads, healthcare, you name it. But, you probably knew that part!

What you might not know is that you can control how much you pay in taxes through tax planning. Yep, it's true! Tax planning involves being strategic about your income, deductions, and credits to minimize your tax liability. It's not about cheating the system; it's about understanding it and making it work for you. When you plan your taxes effectively, you can keep more of your hard-earned money in your pocket. And who doesn't want that?

Remember, tax planning isn't just a once-a-year gig—it's something you should be thinking about all year round. Now, let's get you acquainted with some stellar strategies to make this happen.

UNDERSTAND YOUR TAX BRACKET

Let's get familiar with your tax bracket. Tax brackets are like rungs on a ladder, with higher income meaning a higher position on the ladder. As you climb, the percentage of your income that goes to taxes increases—it's called progressive taxation. For example, in 2021, if you're a single filer and earn up to \$9,950, you're in the 10% tax bracket, meaning 10% of your income goes to taxes. If you earn between \$40,526 and \$86,375, you're in the 22% bracket, but only the income above \$40,526 gets taxed at that rate. Understanding your tax bracket is crucial for effective planning. It allows you to predict and minimize your tax liability through strategies like retirement account contributions. We'll explore these strategies later. Give yourself a high five—you're one step closer to becoming a tax planning pro!



PLANNING FOR LIFE CHANGES

Life changes, big or small, can have an impact on your taxes. Let's break it down.

First off, let's talk about one of the biggest joys in life—having a baby! A new baby not only brings bundles of happiness but also offers tax benefits. Yup, you heard that right! Your new bundle of joy might qualify you for tax credits like the Child Tax Credit or the Child and Dependent Care Credit. Plus, you'll get an additional exemption on your tax return for your little one. Diapers and late-night feeds might be hard, but the tax benefits are a silver lining!

Next up is buying a house. Homeownership is a dream for many, and guess what—it comes with tax advantages. The mortgage interest you pay can be deducted from your taxable income. Plus, if you decide to sell down the road, you might qualify for the capital gains tax exclusion on the sale of your main home. Look at you, homeowner, reaping those tax benefits!

Other life changes, like starting a new job, getting married, or even retiring, can also significantly impact your taxes. Each event may change your filing status or taxable income, and may potentially introduce new deductions or credits for which you qualify.

Remember, tax planning isn't a static activity. Your life events play a crucial role in it. So, keep them in mind while planning your taxes, and you'll be all set to save big on your taxes. High five—you're getting better at this tax planning thing every minute!

FREELANCERS, SIDE GIGS, AND TAXES - A GUIDE FOR PARENTS

Alright, let's talk about the gig economy. Maybe you're freelancing or have started a side gig to supplement your income. If that's you, way to hustle! But, along with the extra cash, these ventures also come with their own set of tax implications. So, let's untangle this together.

As a freelancer or gig worker, you're essentially running your own business. This means you're considered self-employed for tax purposes. You might be wondering, "What's the difference?" Well, unlike a traditional job where your employer withholds taxes for you, now you're the one responsible for handling your taxes. This can be a bit more complex, but don't worry, that's what we're here for!

The key to handling taxes as a self-employed individual is to understand that you'll be paying income tax and self-employment tax (which covers Social Security and Medicare). You'll also need to get comfortable with estimated quarterly taxes, as the IRS requires you to pay as you earn, not just at the end of the year.

Now, for the good news! There are also tax advantages for the self-employed. You can deduct business-related expenses to reduce your taxable income. This includes things like home office expenses, supplies, travel, and even some meals. So remember to keep track of all your expenses throughout the year—it might seem tedious, but come tax time, your wallet will thank you.

Remember, having non-traditional sources of income doesn't need to be a tax headache. With a little bit of knowledge and some planning, you can navigate the self-employment tax landscape like a pro. High five, parent hustler—you're doing amazing!

YEAR-END TAX PLANNING STRATEGIES

And now, let's get you up to speed with some year-end tax planning strategies. These are moves you can make in the twilight of the year to help lower your overall tax liability. And who wouldn't want that? So, let's unpack some of the options.

First up is maximizing your retirement contributions. If you've got a 401(k), IRA, or another retirement account, contributing as much as you can will not only secure your golden years but also lower your taxable income now. Win-win, right? So before the year ends, check if you've hit the contribution limit, and if not, bump up those contributions. Next, consider tax loss harvesting. If you've got some investments in the red, selling them off before the year's end can offset capital gains you've made elsewhere, reducing your tax liability. No one likes losing money, but this strategy can make the best of a bad situation.

The end of the year is also a great time for making charitable donations. Not only do you get to feel warm and fuzzy inside, but you also get to reduce your taxable income. Remember, if you're itemizing your deductions, keep the receipts of your donations for tax time.

Finally, if you're self-employed or own a business, consider purchasing needed business equipment before year-end. These can often be written off as a business expense and lower your taxable income. It's all about timing!

Remember, everyone's tax situation is unique, so these strategies may not work for all. But with understanding and proper planning, you can make year-end moves that could potentially save you a bundle at tax time. High five, tax planning superstar—you're on your way to a lower tax bill!

GETTING HELP: WHEN TO CONSULT A TAX PROFESSIONAL

Navigating the world of taxes can sometimes be a bit tricky. It's like a labyrinth of numbers, forms, and rules that seem to change every year. And while we're all for learning and handling things on your own, there are times when consulting a tax professional could be beneficial. So, when should you consider bringing in the big guns?

Firstly, if you've had major life changes—like getting married, having a baby, buying a house or starting a business—the tax implications can be complex. A tax pro can help you navigate these changes and ensure you're making the most of any potential tax benefits.

Secondly, if you're self-employed or running your own business, things can get complicated. You've got to deal with estimated quarterly taxes, business expenses, and self-employment tax, among other things. A tax professional can help you stay on top of these elements and avoid any potential tax pitfalls.

Also, if you've inherited property, received a large gift, or made some big investment moves, these can have significant tax implications. A tax pro can guide you through the intricacies, helping you to avoid any surprises come tax time.

And finally, if you just don't feel comfortable doing your own taxes, there's no shame in that! Taxes can be complex and stressful, and if you'd rather have a professional handle it, that's perfectly okay.

Remember, the goal is to make tax time as stress-free and advantageous as possible. So if bringing in a tax professional can help with that, then it's money well spent. High five—you're making smart decisions for your financial future!

IN CONCLUSION: YOU'VE GOT THIS!

So there you have it, parents. The world of taxes may seem daunting, but with a little bit of knowledge and some planning, it's completely manageable. Remember, the key is to start early and stay organized. Keep track of your income, your expenses, and any potential deductions. Don't be afraid to ask for help when you need it, whether that's from a tax professional or a reliable tax software. And above all, keep your eyes on the prize. Your financial well-being and that of your family is worth every bit of effort.

Each year, millions of people successfully navigate their taxes, and you're no different. You've got the smarts, the hustle, and the determination to tackle this head-on. So take a deep breath, roll up your sleeves, and dive in. Remember, it's not just about getting through tax season—it's about planning all year round to make tax time easier and your financial future brighter. High five, tax champion—you've totally got this!



FAQ

Q: WHAT ARE TAX CREDITS AND DEDUCTIONS THAT WORKING PARENTS CAN BENEFIT FROM?

There are several tax credits and deductions available to working parents that can help reduce their tax liability, such as the Child Tax Credit, Earned Income Tax Credit, Child and Dependent Care Credit, and education credits.

Q: HOW DOES HAVING A SIDE GIG AFFECT MY TAXES?

Having a side gig or freelance work can complicate your tax situation as you may be required to pay self-employment tax and file estimated taxes quarterly. However, it also opens up opportunities for business expense deductions.

Q: CAN I CLAIM MY CHILD'S TUITION OR SCHOOL EXPENSES ON MY TAXES?

Depending on your situation, you may be able to take advantage of certain educational tax credits or deductions, such as the American Opportunity Credit or the Lifetime Learning Credit.

Q: WHAT HAPPENS IF I MISS A QUARTERLY ESTIMATED TAX PAYMENT?

Missing a quarterly estimated tax payment can result in penalties and interest. If you miss a payment, it is recommended to make the payment as soon as possible to minimize these charges.

Q: HOW CAN I ADJUST MY WITHHOLDING TO GET A BIGGER PAYCHECK OR A SMALLER TAX REFUND?

You can adjust your withholding by submitting a new Form W-4 to your employer. A tax professional can help determine the optimal number of allowances for your situation.

Remember, tax laws are complex and constantly changing, and your individual situation can have a big impact on your taxes. For specific advice related to your personal tax situation, it's always a good idea to consult with a tax professional.



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