



# THE TAX HACK CHECKLIST

**BETTERWEALTH**

# RELAX, IT'S JUST TAX

## A Checklist for Better Tax

### FIRST THINGS FIRST

#### Do you have self-employment income?

We'll start here since this could dramatically impact your tax situation.

The IRS defines "self-employment" as "carrying on a trade or business as a sole proprietor or independent contractor, or participating in a partnership that carries on a trade or business."

If you own a business or receive 1099 income from your employer, you likely qualify as self-employed. You may be surprised by what activities may pass the self-employment test. For example, do you:

- Sell homemade goods or crafts? (Etsy, Shopify, Popup Shops)
- Rent out your home or space in your home for >2 weeks of the year? (Airbnb, VRBO)
- Drive for a rideshare company or food delivery service? (Uber, Lyft, Doordash, Grubhub)
- Profit from content writing, creating logos, taking photos, performing live?

If you're sure you don't make self-employment income, feel free to skip ahead to the "All Taxpayers" section.

### SELF-EMPLOYED TAXPAYERS

#### Is your business optimally structured from a tax and legal perspective?

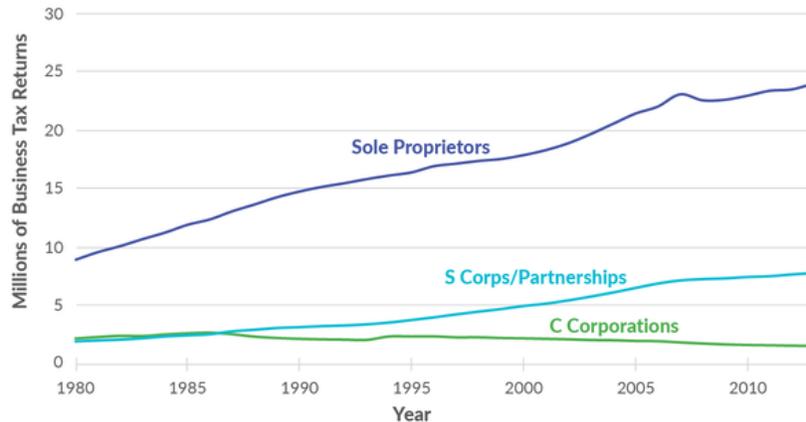
- Are your personal assets protected from all potential debts, claims, liens, and lawsuits?
- Are you strategically minimizing the amount of self-employment tax you pay?
- Does your business adhere to local, state, and federal compliance laws?
- Is filing as a sole proprietorship, partnership, S corporation, LLC, or C corporation most advantageous?

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## DID YOU KNOW?

### The U.S. Now Has Fewer Corporations and More Individually Owned Businesses

Business Tax Returns by Business Type



Source: Internal Revenue Service, SOI Tax Stats- Integrated Business Data, "Table 1: Selected financial data on businesses," by Form of Business, Tax Year, 1980-2013, <https://www.irs.gov/statistics/soi-tax-stats-integrated-business-data>.

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## Are you taking full advantage of tax breaks for the self-employed?

Intelligent tax planning starts with understanding the pros and cons of specific entity structures.

- Do you have tracking and bookkeeping systems to facilitate business expense tracking?
- Are you familiar with the nuanced rules surrounding the most common business deductions? (mileage, meals and entertainment, home office deduction, etc.)
- Are you properly recognizing depreciation for property, machinery, equipment, furniture, etc.?
- Do you know which items are 100% tax-deductible?

## DID YOU KNOW?

*On the federal level, pass-through businesses are subject to a top marginal tax rate of 44.6 percent. This means that, in most U.S. states, pass-through businesses can face marginal tax rates that exceed 47 percent. (Tax Foundation)*

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## ALL TAXPAYERS

### Are you proactive or reactive with your taxes?

There's a big problem in the professional tax world. The majority of CPAs and tax software programs focus on the past, not the future. Having a forward-looking approach can save you thousands.

- Are you proactively, before the tax year ends, looking at strategies that you could incorporate to save taxes?
- Do you have a defined tax plan or strategy?
- Does your accountant or tax prep software suggest ways to save on taxes going forward?
- Do you know which tax bracket you're in and how much income you can make before hitting the next one up?
- Are you cutting your paychecks short because you're withholding too much?

#### DID YOU KNOW?

*In 2018, the top 50 percent of all taxpayers paid 97.1 percent of all individual income taxes, while the bottom 50 percent paid the remaining 2.9 percent. (Tax Foundation)*

### Did you overpay in taxes in prior years?

Don't sweat it. Most people do. Luckily, that money may not be gone forever.

- Have you reviewed previous years' tax returns with someone other than your current accountant to see if there's a possibility to amend returns and recapture overpayment of taxes?
- Are you taking advantage of ways to defer your tax liability?

#### DID YOU KNOW?

*If you made a mistake involving filing status, income, deductions, or credits, you can file an amended return on Form 1040X within three years of the date you filed your original return.*

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## Are you maximizing your applicable deductions and credits?

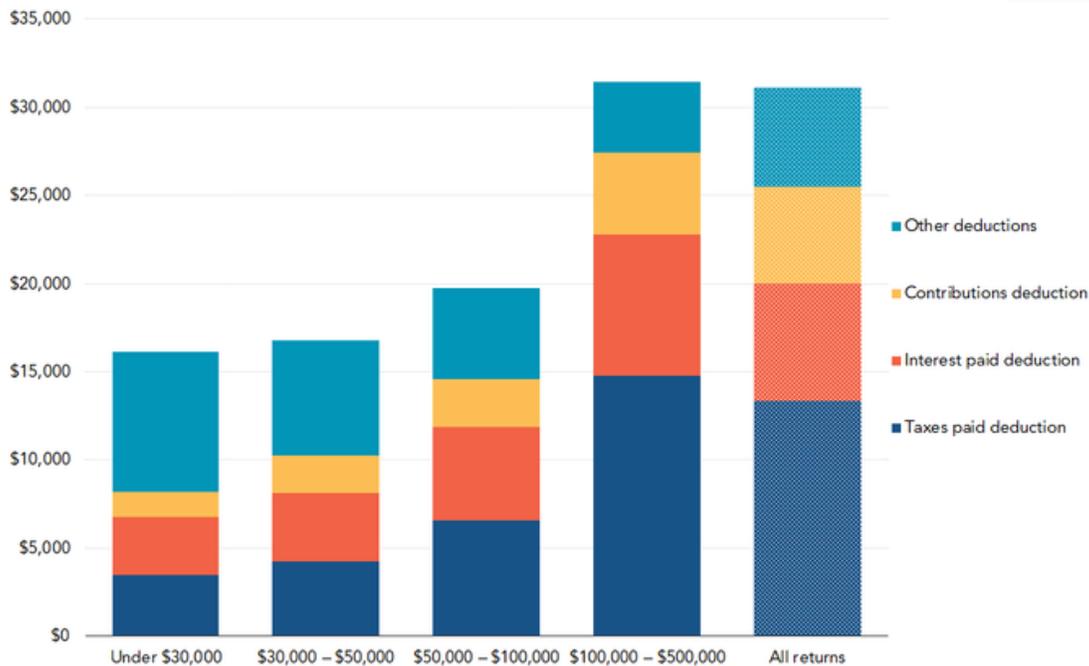
The standard deduction nearly doubled in 2017, and for 2021 it's \$12,550 for singles and \$25,100 for married couples. Itemizing may still make sense with careful tax planning.

- Have you searched for tax credits you might qualify for?
- Do you qualify for the higher child tax credit under the American Rescue Plan?
- Are you making charitable contributions in a tax-efficient manner?
- Are you utilizing a Health Savings Account?

### DID YOU KNOW?

FIGURE 3

Average Itemized Deductions by Type and Adjusted Gross Income (AGI)  
Tax year 2017



Source: Internal Revenue Service. Statistics of Income. Table 2.1. "Returns with Itemized Deductions: Sources of Income, Adjustments, Itemized Deductions by Type, Exemptions, and Tax Items, Tax Year 2017 (Filing Year 2018)," September 2019.

Note: This figure omits the "Over \$500,000" AGI class due to scaling; average itemized deductions for those with AGI over \$500,000 is about \$248,000.

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## Are you optimizing your investments from a tax perspective?

For most people, tax on retirement savings is the number one wealth eroder, but that doesn't have to be the case.

- Do you have an exit strategy (from a tax perspective) for your retirement plans, stocks, real estate, or other investments?
- Have you harvested capital losses to offset capital gains in your taxable accounts?
- Do you have a liquid emergency fund, so you don't have to draw money from a taxable account for unexpected expenses?
- Have you converted your traditional IRAs to Roth?
- Are you set up to minimize estate taxes in the future?
- Are you taking advantage of the numerous tax deductions available to rental property owners?

### DID YOU KNOW?

*Tax expenditures for retirement savings were over \$250 billion in 2019 and will likely exceed \$1.5 trillion over the 2019 - 2023 period. (Tax Policy Center)*

## Are you keeping up in an ever-changing tax landscape?

How might Biden's tax proposals affect you or your business?

- Will you be in the top marginal tax rate that went from 37% to 39.6%?
- Will your long-term gains and qualified dividends be taxed as ordinary income?
- Will your unrealized gains be taxed at death?
- Will your 1031 exchanges and be limited?
- Will your pass-through income be subject to the 3.8% net investment income tax?

### DID YOU KNOW?

*The tax code has been changed or amended over 5,000 times in the last ten years?*

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