



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?

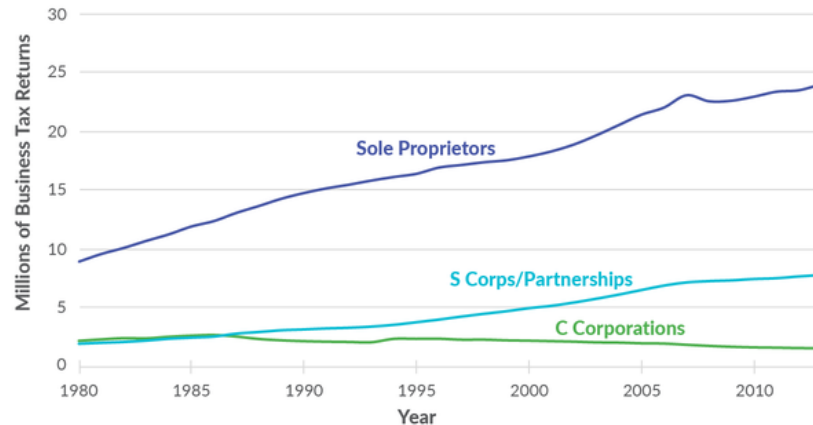
- ☐ Are your personal assets protected from all potential debts, claims, liens, and lawsuits?
- ☐ Are you strategically minimizing the amount of self-employment tax you pay?
- ☐ Does your business adhere to local, state, and federal compliance laws?
- ☐ Is filing as a sole proprietorship, partnership,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

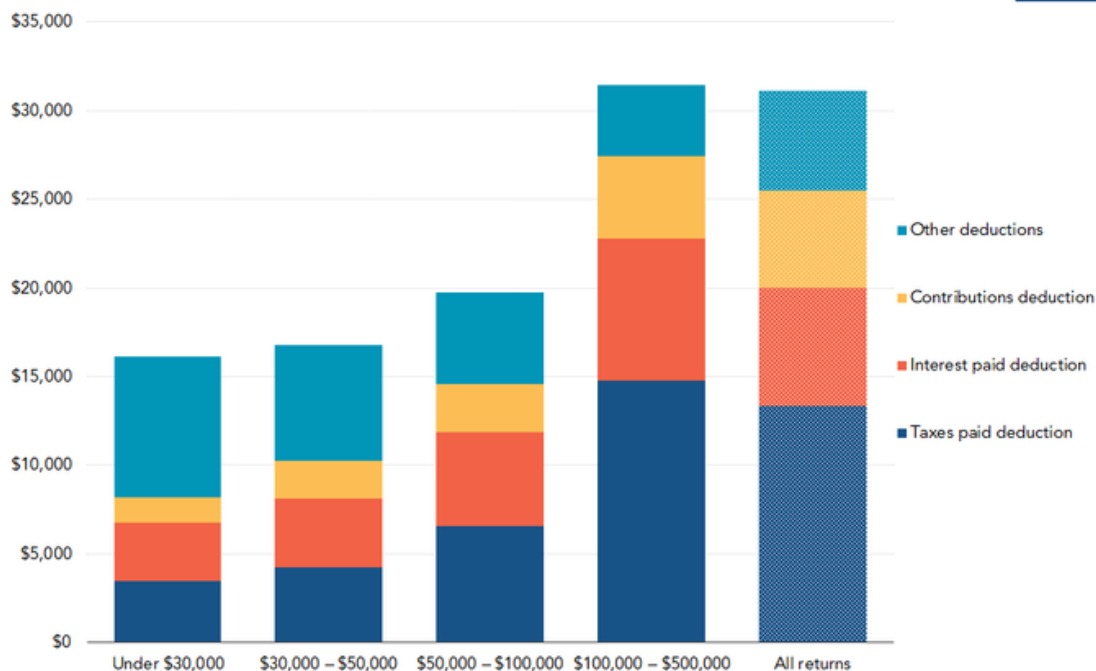
The standard deduction nearly doubled in 2017, and for 2021 it's \$12,550 for singles and \$25,100 for married couples. Itemizing may still make sense with careful tax planning.

- ☐ 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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