

# Five Tax Questions on the Road to FI



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**What is my tax mentality?**

# **What is my tax mentality?**

**Fear?**

**Frustration?**

**Confusion?**

**Annoyance at having to prepare my tax return?**

**What is my tax mentality?**

OPPORTUNITIES!

**What is my tax mentality?**

**Should my home be a weigh station for stuff on its way to the landfill?**

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# **Should my home be a weigh station for stuff on its way to the landfill?**

Why does it matter?

The more **STUFF** you buy, the more tax you are likely to pay.



# Should my home be a weigh station for stuff on its way to the landfill?

| <u>\$50,000 Annual Consumption</u> |          | <u>\$100,000 Annual Consumption</u> |           |
|------------------------------------|----------|-------------------------------------|-----------|
| W-2 Earnings                       | \$64,300 | W-2 Earnings                        | \$150,000 |
| Fed Income Tax                     | \$7,000  | Fed Income Tax                      | \$27,000  |
| CA Income Tax                      | \$1,700  | CA Income Tax                       | \$11,000  |
| FICA / Disability                  | \$5,600  | FICA / Disability                   | \$12,000  |
| Total Tax                          | \$14,300 | Total Tax                           | \$50,000  |
| Effective Tax Rate                 | 22%      | Effective Tax Rate                  | 33%       |
| Tax Rate on Consumption            | 29%      | Tax Rate on Consumption             | 50%       |

*All numbers very approximate, single taxpayer with no dependents.*

# Should my home be a weigh station for stuff on its way to the landfill?

Buying STUFF is a great way to increase your tax rate and pay more taxes! Why do that if it's all ending up here anyway?



**What is my tax mentality?**

**Should my home be a weigh station for stuff on its way to the landfill?**

**Am I grabbing the low-hanging fruit of EI tax planning?**

# **Am I grabbing the low-hanging fruit of FI tax planning?**

**Contributing to 401(k) to secure the entire employer match**

**Roth IRA**

**Health Savings Account (HSA)**

**Save, Save, Save!!!**

# **Am I grabbing the low-hanging fruit of FI tax planning?**

Blog Post:

<https://fitaxguy.com/top-four-tax-moves-for-financial-independence-beginners/>

**What is my tax mentality?**

**Should my home be a weigh station for stuff on its way to the landfill?**

**Am I grabbing the low-hanging fruit of EI tax planning?**

**Am I gilding the lily?**

# Am I gilding the lily?

Per [Merriam-Webster](#),  
gild the lily means “to  
add unnecessary  
ornamentation to  
something beautiful in  
its own right”



# **Am I gilding the lily?**



**Beautiful in its own right: holding real estate in a taxable account (own name, LLC, revocable trust, etc.) and claiming depreciation deductions to reduce or eliminate income taxes on rental cash flow.**



# **Am I gilding the lily?**



**Beautiful in its own right: holding financial assets (stocks, bonds, mutual funds, ETFs) in a traditional or Roth retirement account. Interest/dividends/capital gains tax deferred or tax free, and at many financial institutions fees are approaching zero.**

# Am I gilding the lily?



What about real estate in a retirement account?

- Increased fees and complexity
- More limited access to cash
- Loss of benefit of depreciation deductions
- Loss of step-up asset basis at death
- Prohibited Transaction rules
- Blog Post <https://fitaxguy.com/real-estate-in-an-ira/>

**What is my tax mentality?**

**Should my home be a weigh station for stuff on its way to the landfill?**

**Am I grabbing the low-hanging fruit of FI tax planning?**

**Am I gilding the lily?**

**What is my withdrawal strategy?**

# What is my withdrawal strategy?

Roth Conversions

Tax Gain Harvesting

Premium Tax Credit

HSAs

Charitable Giving (Appreciated Stock, QCDs,  
etc.)

# **Disclaimer**

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**Questions?**