How to Use The Automatic Tax Rate Calculation in SIPS Advanced

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Use the power of SIPS Advanced to automatically calculate taxes for every year in your SIPS plan. Discover the best tax strategies; ROTH conversions, IULs, intelligent withdrawal sequencing and more with a click of a button. If you feel you need more support or would like to set up demo time with one of our representatives, please contact us at: support@planscout.com.

Related Articles and Sections:Part One: Forecasting Effective Tax Rate while Client is Working,Add Inc Tax

Transcript:

0:05: Hi it's John Michael Lust Vice President of Operations at PlanScout. Today I'll be showing you how the SIPS retirement planning system can help you easily add income taxes to your financial plans using our Advanced Tax planning feature. Income tax analysis is a key component of a strong financial plan.

0:20: As clients begin their retirement Journey it is important to understand how uh they're changing incomes from transitioning from earning wages to withdrawing from savings starting Social Security or pensions and then taking required minimum distributions can affect their future income taxes. Without proper planning these future tax burdens can catch clients by surprise if they're higher sometimes significantly higher than expected

0:43: With Sips Advanced Tax planning which is now available in our sips Advanced subscription plan we can easily and automatically calculate estimated income taxes for every year of the financial plan.

0:55: All right let's get started. So we're beginning here with a example client. Their a single client with a couple more years worth of uh work here before they retire they're earning about $100,000 a year.

1:08: They'd like to take home $85,000. They've been good Savers with $750,000 in non-qualified assets and uh one and a quarter million in their IRA and uh we've done a lot here to set up the financial plan but the key thing that's missing are the income taxes.

1:25: So first I'm going to show you how we would calculate those manually. Uh which is something that we can do in the Cash Flow and Tax Advisor.

1:34: So I'm going to just take a look at year one and we're going to say okay in this year we're earning $100,000 worth of wages so I'm going to remember that

1:42: I'm going to go to the cash flow and Tax Advisor I'm going to click edit I'm going to add a scenario I'm going to make sure I choose the right uh year here for uh my tax rates and uh

1:52: I can rename this something so I know what year uh it's for and I'm going to put in my $100,000 worth of wages and I'm going to click calculate.

2:05: Now if I scroll down I can see that SIPS is taken into account the standard deduction when figuring out our taxable income we've got the 22% marginal tax bracket for this client and an effective tax rate of about 13.4%.

2:18: So they would expect to pay about $13,400 in taxes for this first year so I'm going to take that effective tax rate of 13.4%

2:27: I'm going to go back to my structured income plan I'm going to click edit I'm going to add an income tax here

2:33: and I'll put in 13.4% for my starting effective tax rate and click save

2:43: now this is added an approximate income tax column and we can see this is running all the way down the plan now it's calculating the uh effective income taxes and our after tax our Target income column is now an after tax Target

2:55: now what we should be doing if we were to continue the manual process is look at every year where there's an income change

3:01: so year three when we begin taking from non-qualified

3:06: uh year six when we start Social Security and

3:11: then year 11 when we begin RMDs

3:12: and we would go back to the cash flow and Tax Advisor we would create a new tax scenario for each of those years based on where the income is coming from uh and then take those effective tax rates and we'd update you the appropriate years in our plan

3:23: um this is manual process it can be time consuming if you've got clients with lots of accounts and lots of different income sources that are changing throughout the plan uh can also be error prone if you're manually trying to figure out the capital gains or dividends um or turnover in their non-qualified accounts

3:40: so let's see how the Advanced Tax planning features can make this process easier for us

3:45: so to do that I'm going to go back to my tax screen and I'm going to click the

3:52: use Advanced Tax planning button here and I'm going to click save and this is going to give us some new tax calculation options in our accounts and different incomes

4:00: so let's make sure those are set correctly so first I'm going to go to our

4:04: non-qualified account and uh I don't want

4:08: tax income distributions because that's something we' use for something like an IRA but I am going to use this

4:12: non-qualified Investments uh dividends and capital gains option so I'll set that and I'll click 4:19: save then I'm going to go to my IRA and this is already set to income tax income distributions which is good that's what I want so I'll click

4:27: save there and then I'll go to the client one wages now for the wages or other incomes

4:35: we can set you know different uh tax ability types depending on what type of income it is if it's wages Social Security pensions other income or even not taxable so we'll leave this as wages here and we'll leave the Social Security uh with the Social Security tax calculation option 4:51: now we can see some changes here SIPS has recalculated the effective income taxes each year we can see in Year One uh this is what we would expect based on what we calculated manually

5:03: and then between years three and 10 we can see those income taxes go to effectively zero because we're only taking you know some capital gains from the nonqualified and social security income

5:13: and then in year 11 once RMDs begin we can see that that income tax rate increases sharply starting at you know $14,000 a year at 12% effective tax rate and increasing for the rest of the plan

5:30: now sometimes clients have tax activities or tax situations that aren't reflected on the sips plan and we can do some manual overrides for that here

5:38: on the tax screen and uh one common situation might be a client with a lot of schedule a distributions so let's pretend that this client has say a large mortgage and some property taxes that they're going to pay off within the next five years

5:50: let's say they're paying $35,000 a year total for that so we'll put that in for the first five years and and we can

5:59: click save and now we can see how those taxes have changed

6:06: um it's really obvious in the first couple of years here where we were previously paying about 13,000 and now that's quite a bit lower

6:13: if you're ever curious about how SIPS is calculating these taxes you can uh create a tax scenario automatically and it'll show the breakdown of what that is

6:22: so you go to your tax screen and down in the bottom left you can select the year you want to create the scenario for you

6:28: click create tax scenario for that year and here is uh our year one that we've calculated with the automated uh Advanced Tax

6:35: so we've still got $100,000 of wages which is great we can see our schedule a uh deductions here of $35,000 and SIPS is going to compare the standard deduction to the schedule a um deductions and it's going to take the largest and use that to calculate our taxable income so we can see for those years where the client's paying off their mortgage they are going to pay a little bit less in their taxes

7:01: now if we go back we can also I want to take a look here I want to specifically call attention to um these low tax years from years 3 through 10 and then from years 11 plus when we start taking required minimum distributions because this is something that we can see a lot for clients who have been diligent savers particularly if they've been saving their IRAs where we can see that this required minimum distribution

7:29: is actually higher than his uh income need and we can see that because we have an income Surplus over here on the right and a number of year and the higher income taxes that are resulting from that

7:43: so as an adviser this is a great opportunity to investigate for this client whether there are opportunities to uh move some of these uh tax deferred assets to a tax-free vehicle such as a Roth IRA or maybe an IULs and use up some of the tax bracket capacity uh in these years

8:03: and that's all there is to it so just like that we've seen how the sips Advanced Tax planning features can help us uh quickly and easily uh estimate income taxes for every year in the plan and

8:16: identify opportunities where the client can reduce their future tax burdens by using Roth conversions or maybe funding IULs with their tax defer assets

8:25: stay tuned as we share more information about all the exciting new features coming to the SIPS retirement plan system and again this Advanced Tax planning functionality is already live included in your SIPS Advanced subscription

8:38: for more planning resources and tutorial videos please visit www.sipsplsnning.com and for more information about our outsourced financial planning services please visit plansscout.com

8:48: thank you very much and have a great day