

Tax Planning 101:

The Beginner's Guide
for Individuals



Success Starts Here.



First State
Community Bank

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Introduction

More than [40 percent of all Americans](#) prepare their taxes on their own, and the rest rely on paid or volunteer tax prep services to get their accounting in order for Uncle Sam. But regardless of how you have your taxes prepared, it is important to understand the rules and math behind this process—and make sure you're only paying your fair share.

Complicated tax laws don't make it easy to understand the implications of the deductions, deferrals, and credits that show up on your tax return. Even so, a little education can go a long way in helping you understand the importance of tax planning and how you can use these complex calculations to your benefit.

In this guide, we'll break down the basics of tax planning and explain how average U.S. consumers can keep more money in their bank accounts by paying closer attention to the tax prep process.

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First Things First: Figuring Out Your Tax Bracket

In the United States, the amount of taxes you pay is based on your gross taxable income. Tax brackets are set up to correspond to the amount of tax each dollar of income is subject to within that tax bracket.

By understanding your tax bracket, you can plan out taxes with the goal of reducing the amount of income subjected to the highest tax bracket. You can even use deductions and other savvy tax accounting to lower yourself into an entirely different tax bracket.

Here's a look at the [2022 tax bracket](#) set by the Internal Revenue Service:

Tax Rate (%)	Filing as Single	Married and Filing Joint Returns	Heads of Households
10%	\$0 to \$10,275	\$0 to \$20,550	\$0 to \$14,650
12%	\$10,275 to \$41,775	\$20,550 to \$83,550	\$14,650 to \$55,900
22%	\$41,775 to \$89,075	\$83,550 to \$178,150	\$55,900 to \$89,050
24%	\$89,075 to \$170,050	\$178,150 to \$340,100	\$89,050 to \$170,050
32%	\$170,050 to \$215,950	\$340,100 to \$431,900	\$170,050 to \$215,950
35%	\$215,950 to \$539,900	\$431,900 to \$647,850	\$215,950 to \$539,900
37%	\$539,900 or more	\$647,850 or more	\$539,900 or more



When figuring out your tax bracket, there are two key considerations to keep in mind.

The first is that your tax bracket is based on taxable income, not total income. Taxable income refers to your income after you've taken deductions for health insurance, Social Security, retirement contributions, and other costs not subject to tax.

The second is that your highest tax bracket only taxes income that falls within that bracket. If your taxable income is \$3,000 above the threshold for the 22 percent tax bracket, for example, that \$3,000 is the only amount of your income taxed at that rate. All of your income up to \$41,775 (if you're a single filer) is taxed only at the 12 percent rate.



Paying the Taxes You Owe: The 5 Pillars of Tax Planning

If you aren't taking time to plan your taxes and maximize your deductions, you're probably paying more taxes than your fair share. Tax planning isn't a process of cutting corners and cheating the government. Instead, it is an opportunity for hardworking taxpayers to claim every deduction, credit, and tax advantage the government is providing to them.

To maximize these tax benefits, you'll want to follow the "[5 Pillars of Tax Planning](#)." These pillars are as follows:



Deducting

Have you claimed all popular deductions available to you? Although most consumers are best served by taking the standard deduction offered by the IRS, some taxpayers can reduce their tax obligations by itemizing these deductions.

Common deductions can include the following:

- Medical expenses
- Tuition costs
- Charitable giving
- Mortgage insurance
- Property taxes
- Contributions to HSAs, Dependent Care FSAs, and other tax-free funds



Deferring

Deferring taxes can be a great way to incentivize investing and to delay payment of taxes until a time in the future when you're more likely to pay a lower tax rate. This strategy is common for contributions to 401(k)s and other retirement accounts (other than Roth accounts, which are not tax-deferred), and it can reduce your present-day taxation by putting away money to fund your retirement.



Dividing

In cases in which family members are filing taxes separately, the process of dividing income can distribute income to taxpayers who will be taxed at a lower rate, resulting in overall tax reductions for the family as a whole.



Disguising

Certain types of income can be accounted for in different ways to reduce your overall tax burden. For example, capital gains from a taxable investment can be deposited into a tax-deferred retirement account, thereby reducing your overall taxable income. Because taxable gains are often taxed at a lower rate than earned income, you can use this transaction to move income out of your highest tax brackets.



Dodging

The name of this pillar may sound sketchy, but the process of dodging is really as simple as moving money from taxable to non-taxable accounts. You might do this through retirement account rollovers, property investments, or other strategies that shelter your money from taxation.

In addition to these five pillars, keep an eye out for applicable tax credits that can cut down on your taxes owed. Tax credits may be issued for education costs, electric vehicle purchases, or a wide range of other government initiatives.

These credits can change from year to year, so do your research to see which ones may benefit you in the current tax year. A single tax credit can cut hundreds or even thousands off of your tax bill, which can make a big difference to your checking account.

Prepping for Tax Prep: What Tax Records Should You Keep?

From receipts to tax-deductible purchases to W-2s and other tax documentation, you'll need a wide range of documents and records to complete your tax return—and these documents will be even more important if you're ever audited by the IRS.

In most cases, the IRS has three years to decide whether or not to audit your return. For this reason, it is recommended that taxpayers [hold on to all of their tax return documentation](#) for at least three years.

Some of this information, including copies of past years' tax returns, may also be requested by mortgage services or other lenders as they review your income history. Keep these documents in a safe place, and consider using an accounting tool such as QuickBooks, which can help you store and manage receipts for deductible personal and business expenses.

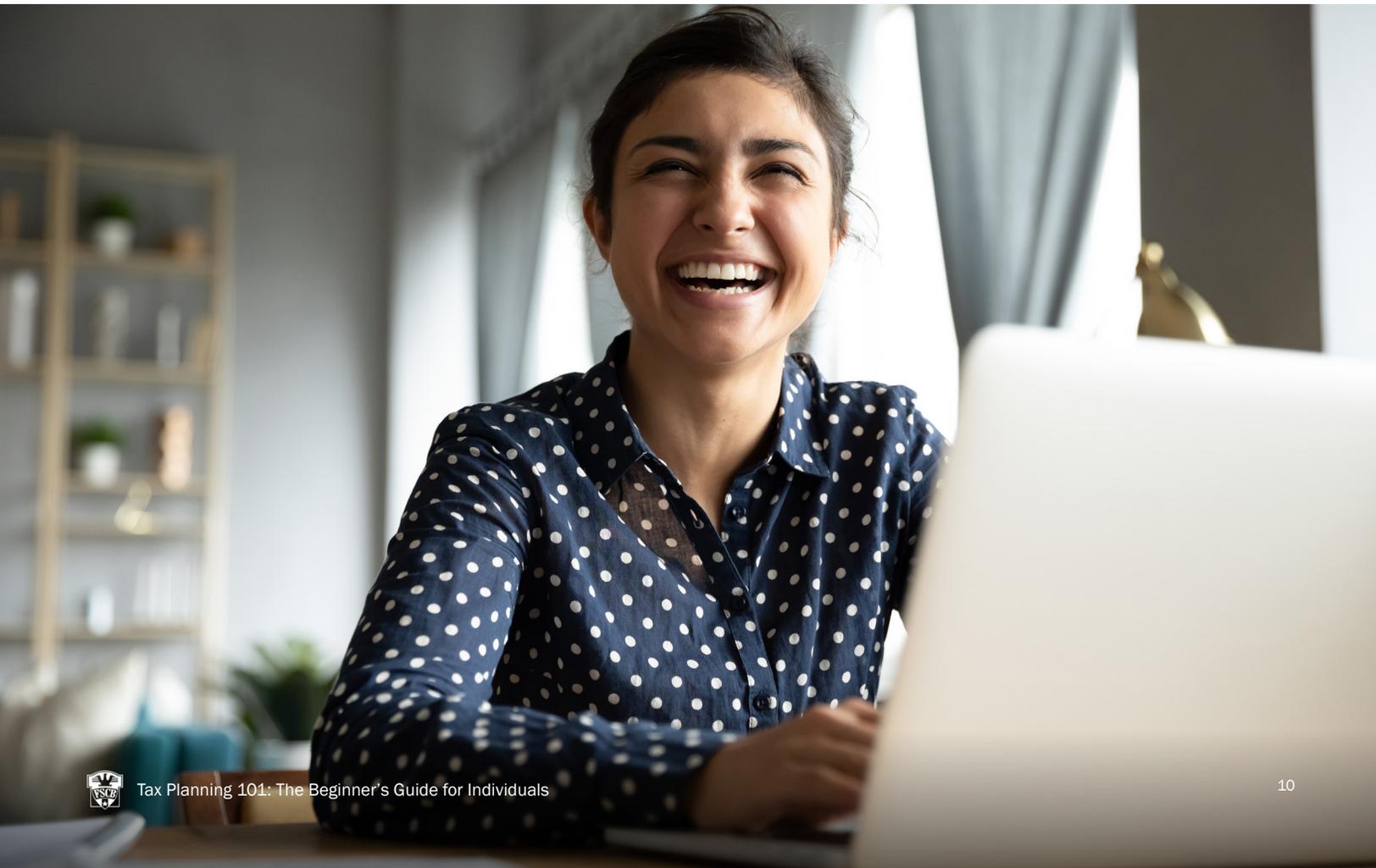
By keeping these documents in a safe place, you'll save yourself a lot of stress when you need that information to facilitate an audit or a loan approval.

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Cash In on Smarter Tax Planning

By maximizing their deductions, claiming credits, and moving around money to minimize their tax obligations, the average taxpayer can save hundreds or even thousands on their annual tax return, reducing that looming Tax Day payment—or increasing the size of their tax return.

If you've never given taxes much thought or you assume you don't earn enough for savvy tax practices to save you some money, it's time to think twice and take a second look at your tax filing practices. Whether you want to file your own taxes or hand that process off to a professional, make sure you're keeping receipts, tracking deductions, and maximizing every opportunity to keep extra money in your pocket.



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About First State Community Bank

Whether you're seeking a line of credit, a personal loan, credit card transfer options, or financial counseling services to improve your money management, we're committed to helping you set and reach your financial goals.

Since 1954, First State Community Bank has been a leading financial resource to residents and businesses across the state of Missouri. First State Community Bank has built its reputation on an unyielding commitment to delivering the best possible service to customers and partners, from the Junior Savers who open an account with \$1 to those applying for multimillion-dollar commercial loans. Our mission is to help our customers achieve financial success on their terms, whether that means buying a new home, starting a business, or planning for retirement. We are here to help you reach your financial goals today and into the future.

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to see how you can get started today.**

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