

Taxable income (not total income) is what determines your Cap Gains rate. Adjustments help reduce your total income - are you maximizing your deductions?

Arming yourself with this insight helps you make informed decisions. Estimating your taxable income is *simple*, managing it for *more favorable outcomes* is too.

You can use a basic formula to calculate your taxable income. First, identify each of the components of the formula that you will need. These include:

- Total Gross Income
- Adjustments
- AGI
- Below the Line Deductions

Total Gross Income includes all income you received from any source, including:

- Wages
- Rent
- Interest
- Dividends, etc.

Even though some income isn't taxed, such as municipal bond interest or child support, that will be sorted out later. For now, keep it all in.

Adjustments reduce Gross Income and include items that get "pre-tax" treatment. Also known as "above the line" deductions, you don't have to itemize to get them. Examples include:

- Pre-tax contributions to 401k & other retirement plans (*Roth Contributions are after tax*)
- Health Savings Account (HSA) contributions
- Deductible IRA contributions
- Employee's share of medical premiums deducted from payroll

AGI - The result of subtracting Adjustments from Total Gross Income gets us to an important number called Adjusted Gross income, or AGI.

AGI is used to determine eligibility for several other items, including tax credits.

Below the Line Deductions are commonly referred to as Itemized Deductions.

However, they actually refer to *EITHER*:

- itemized deductions from Schedule A (*i.e. mortgage interest, property taxes, charitable contributions etc.*) *OR*
- the standard deduction, *whichever is larger*

You can now calculate your Taxable Income using the below formula.

$$[\text{Total Gross Income} - \text{Adjustments}] = \text{AGI} - \text{Below the line deductions} = \text{TAXABLE INCOME}$$

Each part of the equation offers opportunities that can impact the final number and all that flows from it. Contact **Sage Wealth Planning** to learn about different strategies that may help you minimize your tax liability.

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