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Tax Freedom Day

By Stephen D. Tonjes, CPA

For 2008 Tax Freedom Day was April 23, 2008. We are waiting to hear what day it will be for 2009. Each year the Tax Foundation calculates the number of days that taxpayers must work in order to pay the federal and state income tax, social insurance taxes, sales and excise taxes, property taxes, corporate income taxes, other taxes, and estate and gift taxes. Taxpayers spent 113 days laboring to pay the taxes that the taxing authorities said they owed for 2008. As we head into this tax filing season we hope that you are giving some thought to your personal Tax Freedom Day.

How can you celebrate your personal Tax Freedom Day sooner? It really comes down to planning and understanding where the opportunities lie and where there are pit falls. Let us focus for a moment on the federal individual income tax.

The key areas are:

Determining your Gross income:

(a) exclusions and tax exempt income;

(b) deferral opportunities;

Deductions from gross income to arrive at Adjusted Gross Income (AGI);

Deductions from AGI arriving at taxable income;

Regular tax rates, capital gains rates, penalties and interest;

Taking advantage of tax credits; and

Minimizing the alternative minimum tax monster and the kiddie tax.

We start by determining your gross income. That should be easy right? For example if your employer pays for your medical insurance that is part of your gross income right? The answer is no. Though your employer paying for your medical insurance is part of your compensation it is not part of your gross income. The tax law provides certain exclusions from gross income, of which employer paid medical insurance is one of them. If an item is excluded you will never pay income taxes on it. Are you taking advantage of all the exclusions that are available to you? Are you discussing what these exclusions are with your tax advisor? Now that you are taking advantage of the items that are excludible what next? We start looking at ways to defer the income taxes that you would otherwise pay on a taxable event. Some common methods of deferral are contributions to a Section 401(k) plan, Section 1031 like-kind exchanges, installment sales, and annuities. Are you taking advantage of all your deferral opportunities?

Then we start looking at your deductions. What deductions are deductible from gross income to arrive at AGI? This is important because there are a number of limitations that are triggered based upon what your AGI figure is.

We will explore these deductions, tax rates, tax credits, the alternative minimum tax monster and the kiddie tax in future columns. In the mean time we encourage you to talk to your tax advisor and then we can all celebrate Tax Freedom Day sooner rather than later.



Stephen D. Tonjes, CPA, is a partner in the firm Tomei & Tonjes, LLP. in Lafayette CA. Steve has thirty years of diversified tax experience and is a member of the American Institute of Certified Public Accountants and the California Society of Certified Public Accountants. Stephen D. Tonjes can be reached @ (925)-283-8700, Ext 105. Steve@tomeiandtonjes.com.

Reach the reporter at: info@lamorindaweekly.com

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