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AAFMAA Wealth Management & Trust LLC

5 Tax Tips Every Military Family Needs to Know

Presented by John Sledgianowski, CFP[®], Relationship Manager

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Our Mission: to be the premier provider of financial planning, investment management, and trust services to the American Armed Forces community.

AAFMAA Wealth Management & Trust LLC

A Wholly Owned Subsidiary of the American Armed Forces Mutual Aid Association

- Proudly serving America's Armed Forces since 1879
- Non-profit, Tax Exempt (501[c](23)), Member Owned Mutual Aid Association offering Life Insurance
- Open to all branches of the U.S. Armed Forces and their families (children age 23 and under)



DISCLAIMER

- Not specific investment or tax advice, we provide innovative, personalized, and lifestyle-appropriate financial services.
- Bound by a **fiduciary standard** - any advice or service we offer must always be in the best interest of the client.
- Serving U.S. Armed Forces community





Agenda

5 tax tips **every**
military family
needs to know.

- Keep the “big picture” in mind
- Maximize and optimize tax-efficient savings
- Don’t pay fees, interest, or penalties!
- Special tax breaks for active duty
- Group expenses to raise itemized deductions

Be “tax-smart” – the legal way to avoid taxes

Tax law is written to **incentivize certain financial decisions**

- Contributing to retirement plans
- Raising children
- Purchasing a home (mortgage interest deduction)



The
“**Big Picture**”



Don't evade taxes – the illegal way

- Not reporting income
- Taking deductions that you don't qualify for

The IRS will eventually find you!



Maximize and Optimize Savings

Tax law favors contributions to “qualified” retirement plans

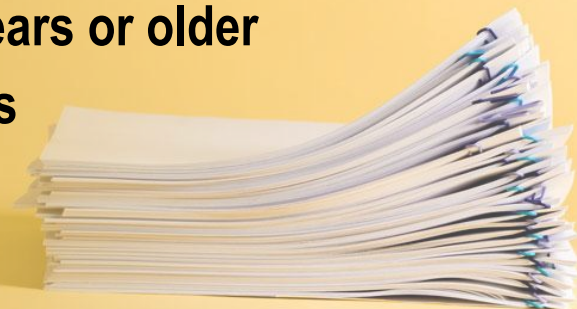
- Tax credit for some low-income earners who contribute

Maximize and Optimize Savings

Employer sponsored plans, **such as an 401k or 403b**

- **Up to \$19,500** / year pre-tax contribution
- Additional catch-up contribution **of \$6,500 if 50 years or older**
- Some employers provide **matching contributions**

Take advantage
of the match -
“free money”





Thrift Savings Plan (TSP)

Similar to a 401k plan, **TSP** is the **retirement plan** for Federal employees and military personnel (part of BRS)

Thrift Savings Plan (TSP)

Contributions may be made to either a **traditional** (pre-tax) or **Roth** (after-tax)

- Up to **\$19,500 / year** (combined total)
- Additional catch-up contribution of **\$6,500 if 50 years or older**
- Automatic enrollment at **3% of base pay**
- Government provides up to **4% match** after 2 years of service



Individual Retirement Arrangements (IRAs)

Traditional IRA

- Pre-tax contribution \$6,000 (plus \$1,000 catch-up)
- Tax-free contribution, but withdrawals taxed

Roth IRA

- Post-tax contribution \$6,000 (plus \$1,000 catch-up)
- No tax break upon contribution, but withdrawals tax-free

For both types of IRAs, income limits apply

Fines, Interest and Penalties

IRS will impose
fees if **taxes not
filed correctly
and on time**





Fines, Interest and Penalties

File by the deadline (usually April 15)

- File an extension request if can't completely file by the deadline
- Penalty as much as 5% per month if taxes not filed on time

Fines, Interest and Penalties

Typical causes for a penalty:

- **Failure to file**
- Failure to pay in **full by due date**
- Failure to pay proper **estimated tax** (withholding or quarterly)
- **Dishonored check**



Fines, Interest and Penalties



01

Interest will
accrue on
unpaid taxes
as well

02

If self-employed
or receive 1099
income, file
quarterly
estimates

03

If over 72 years
old, must take
annual RMD from
traditional IRA
(50% penalty for
amounts required
but not taken)

Automatic Extensions for Military Personnel

- If you apply before due date
- If you are stationed outside the U.S.
- While serving in a combat zone or contingency operation

For most cases, even if an extension is filed, interest will accrue on unpaid taxes.



Active Duty Tax Benefits


Several tax breaks/advantages available to active duty/reservists

- Not all active duty income is taxable (most allowances are tax-free)

Exclusions and deductions for active duty:

- Combat pay and reenlistment bonus while in combat zone
- Out-of-pocket moving and travel expenses
- Some out-of-pocket education and uniform expenses

Some states do not charge income taxes to active military



Optimize Each Year's Tax Return

With our progressive tax
system **there are ways to
minimize taxes** in an
individual year



Optimize Each Year's Tax Return

Group itemized deductions to increase total deductions in a tax filing year (> standard deduction)

- Charitable giving
- Prepay mortgage interest
- Group out-of-pocket medical expenses (>7.5% AGI)

Defer income
to reduce
current year's
AGI

Conclusions



Be tax-smart, but **pay your legal, fair share**

- **Optimize and maximize** your tax situation
 - Take advantage of qualified retirement savings
 - Group deductions and/or income into a single tax year
- **Follow the rules:** Don't pay fees, penalties or interest
- Be aware of **special provisions for active duty**
- **Get professional help**
 - Sound financial planning can help develop a long-term tax strategy

Questions?

John Sledgianowski, CFP®
Relationship Manager
AAFMAA Wealth Management & Trust LLC



719-313-3403



jsledgianowski@aafmaa.com



www.aafmaa.com/wealth



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Thank You!



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