How to Model Complex Tax Scenarios in SIPS Advanced

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Go deep when you need to. SIPS Advanced allows you to customize dividends, capital gains, and embedded capital gains for each year of the plan. Need to model taxable events not in the SIPS plan? No problem, SIPS Advanced also allows you to model taxable events like business incomes, tax credits, and tax deductions not shown in the SIPS income plan. 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.

Transcript:

0:05: Hi this is John Michael Lust Vice President of Operations at PlanScout. Today we'll be covering part two of using Advanced Tax planning in the SIPS retirement planning system we'll be looking at how we can use Advanced Tax planning to automatically calculate dividends capital gains and turnover in non-qualified accounts

0:20: for clients with non-qualified assets SIPS Advanced Tax planning makes it easy to calculate these values and include them in their income tax calculations these features are already live and are available in our sips Advanced subscription plan

0:31: so let's get started so here we are with our um sample client here where we've already enabled the Advanced Tax planning and added that to the account

0:40: before we get into the details I'd love to just Define some of the terms that we'll be talking about in this video so I'm going to go to our non-qualified account I'm going to

0:47: click manage and when we select the non-qualified Investments dividends and tax uh dividends and cap gains calculation option sips Advanced will automatically um model the short-term capital gains the long-term capital gains and the dividends so we can tax those things at the appropriate rates

1:10: um when we select this tax calculation option we'll have three uh new Fields here down below and the first one is starting capital gains this represents the unrealized gain if it's positive or the unrealized loss if it's negative uh within the account at the start of the plan so in year one of the plan what are the embedded gains or Los losses

1:30: um so if we have a $750,000 account and it's got $600,000 of embedded gains then we would put 600,000 here in this field

1:40: average annual dividends tells sips how much of the hypothetical return percentage will be realized as an annual dividend and how much of it is going to be from capital gains

1:50: so if we have a hypothetical return of 5% and we put annual dividends of 2% that means that 2% of that growth will be taxed as dividends and the other 3% of that growth will be taxed as capital gains

2:03: finally the trading style or turnover field represents the percentage of the account that is being sold and repurchased over the course of a year

2:12: so if that's zero that means that this account was never traded it was essentially Buy and Hold so as the account grows according to the hypothetical return all capital gains will be taxed as long-term capital gains

2:24: a 50 means that 50% of the account is going to be sold and repurchased within a year so that's going to create short-term capital gains for you know a portion and then long-term capital gains for a portion of those that are realized each year and then

2:38: a 100 or more um means that this is being traded at you know everything in the account is being traded at least once each year uh so we're completely turning the account over and that means any capital gains will be taxed at short-term capital gains each year

2:53: so now let's start adjusting the plan uh and we'll see how these different settings work in SIPS Advanced

3:01: so I'm going to go to a new scenario here and we're going to look at starting capital gains I'm going to go back to the non-qualified account and let's put in um let's say 80% of this account uh has embedded capital gains so $600,000 of starting capital gains um

3:15: it's pretty high but uh we want to make sure that we can see some impacts in the plan so I'm going to click save and now we can see you know in the first few years of the plan uh that hypothetical growth rate is the same the growth in the account is the same as in the previous scenario

3:31: but once we get a little further down into year six we can see that we're starting to generate some capital gains or we've generated some more income taxes now compared to our initial scenario

3:44: so we can uh drill down a little deeper in that we can go to our tax screen we can create a tax scenario for year six we can call this our capital gains scenario and we can see you know our social security is still the same as before

4:00: that hasn't changed uh although a larger portion of it is taxable now since we have more uh income and now we can see the long-term capital gains now that we're taking withdrawals from the account we're generating uh $55,000 of long-term capital gains that is

4:17: increasing our taxable income uh compared to the previous scenario giving us uh an higher effective tax rate of 2.7% and $2,285 uh in taxes that year

4:32: now let's go back to our income plan and we can see what adding dividends will do for for income taxes so I'm going to go to our

4:42: another scenario here for average annual dividends going to go back to our non-qualified account and click manage uh and now I'm going to add a 2% average annual dividend so again that means that if our hypothetical return is 5% then 2% of that will be treated as a dividend and taxed accordingly and then the remaining 3% will be taxed as capital gains

5:05: so let's click save and now we can see again the growth in the account is the same uh at 5% but now we've seen our taxes increase compared to the capital gains scenario where we were paying you know

5:20: uh $2,285 in taxes now we're paying over $3,800 in taxes so again we can create

5:31: a tax scenario for that year if we want to drill down uh deeper and see how these taxes are being calculated so now um in the dividend scenario we're generating over

5:43: $13,000 in qualified dividends our social security income Remains the Same although again it's capped out at 85% uh of that Social Security being taxable

5:53: and our long-term capital gains have actually decreased so it's important this is a good high a reminder that when we add the dividends a portion of that growth is going to be taxed as dividends and the capital gains portion of that growth is going to decrease typically

6:11: we can see the increase to our taxable income here uh with the corresponding increase in the effective tax rate and uh taxes paid in that year

6:21: so let's go back one more time we're going to go to another new scenario here and we're going to see what the trading style or turnover will do to this account

6:31: so I'm going to go back to the non-qualified account and for the trading style or turnover I'm going to put 25 so again that means that 25% of the account is being turned over each year it's being sold and repurchased so we're going to have a portion of those capital gains being treated as short-term gains and a portion as long-term gains

6:47: so if we click save now we can see some big impacts to the plan remember we had a pretty large embedded capital gain here of $600,000 so in these first two or three years of the plan uh we're going to see some large tax impacts as we trade out of that embedded gain remember we're trading 25% of that account every year so this is creating some tax impacts for the client

7:12: and even in year six once we've traded out of most of those embedded gains we still see higher taxes compared to the previous scenario

7:19: so again our growth is the same it's the same hypothetical return but we're increasing the income taxes here um as we trade out of those in added gains

7:31: so let's uh create one last tax scenario it's our turnover scenario and we can see again our uh qualified dividends are pretty similar to what we had before

7:44: same with our social security income we're still capped out at 85% of that being taxable and now with our capital gains we can see uh a portion of that is being treated as short-term and a portion of that is being treated as long-term and we we've got the changes to our tax bill income down below

8:04: and we can see the impacts to our effective tax rate where we've increased that to 4.9% um because again those short-term gains are in there um being taxed at a higher rate with $4,521 in the uh total taxes owed for that year

8:23: so just like that so just like that we can see how the SIPS Advanced Tax planning uh functionality can help us easily and quickly uh calculate the tax impacts of capital gains dividends and turnover in a client's account to more accurately estimate their future income tax liabilities

8:42: stay tuned as we share more information about all the exciting new features coming to the SIPS retirement planning system for more information about planning resources and tutorial videos please visit www.sipsplanning.com and for more information about our outsourced financial planning services please visit uh www.planscout.com

9:00: thank you very much and have a great day