

Personal Financial Management

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HW 3

Ever since his wife's death, Eric Stanford has faced difficult personal and financial circumstances. His job provides him with a good income but keeps him away from his daughters, ages 8 and 10, nearly 20 days a month. This requires him to use in-home child care services that consume a large portion of his income. Since the Stanfords live in a small apartment, this arrangement has been very inconvenient.

Due to the costs of caring for his children, Eric has only a minimal amount withheld from his salary for federal income taxes. This makes more money available during the year, but for the last few years he has to make large payments in April - another financial burdern.

Although Eric has created an investment fund for his daughters' college education and for his retirement, he has not sought to look at several aspects of his tax planning activities to find strategies that will best serve his current and future financial needs.

Eric has assembled the following information for the current tax year:

Earnings from wages	\$102,170
Interest earned on savings	\$150
IRA deduction	\$5,500
Checking account interest	\$80
Three exemptions	\$4,050 each
Current standard deduction for filing status	\$9,300
Amount withheld for federal income tax	\$10,178
Tax credit for child care	\$600
Filing status	Head of household

Question 1

What are Eric's major financial concerns in his current situation?

Eric needs to have money available to pay the difference in his tax liability in April. He needs to save money throughout the year in order to make up the difference.

Question 2

In what ways might Eric improve his tax planning efforts?

It may be a smarter choice to withhold more from his paycheck so that he does not have to make a large payment in April.

Question 3

Is Eric typical of many people in our society with regard to his tax planning? Why or why not?

Most people are usually in Eric's situation since a standard family will have two sources of income filing jointly. The death of Eric's wife is an unfortunate event that increases the amount of financial burden on the household.

Question 4

What additional actions might Eric investigate with regard to taxes and personal financial planning?

Getting married (to someone else) would bring in an additional source of income and shift them into a different income bracket. Eric might also want to consider opening a 401k to save for his future and obtain more tax deductions to itemize.

Question 5

Calculate the following.

1. What is Eric's taxable income?

$$102170 + 150 + 80 - 5500 - 4050 - 4050 - 4050 = \$84750$$

2. What is his total tax liability? What is his average tax rate?

$$(1855 + 8512.50 + 0.25(84750 - 75000)) - 600 = \$12205$$

$$\frac{12205}{84750} = 14.4\%$$

3. Based on his withholding, will Eric receive a refund or owe additional tax?
What is the amount?

Based on this information, Eric will owe an additional \$2027 in April.

You can find all my notes at <http://omgimanagerd.tech/notes>. If you have any questions, comments, or concerns, please contact me at alvin@omgimanagerd.tech