

BUILDS

Not financial advice™

LEGALLY AVOIDING TAXES

101

Agenda

Avoid Taxes

Investing

Credit

Budgeting

Chris



Legal Tax Avoidance

Real Photos of US Tax code



Legal Tax Avoidance

401(k)

403(b)

Roth 401(k)

IRA

Roth-IRA

Backdoor IRA

HSA

FSA

SEP-RA

Solo 401(k)

529

Confused Much?

401(k)

company account

Contribute PRE-TAX Dollars

Reduces your income (taxes too)

Employer match

\$22,500 Contribution Limit

Pay tax on withdrawal

BENEFITS OF 401(K)



Paycheck Deferrals

The contributions are taken from your pay before income taxes are applied. This lowers your taxable income, which, in turn, reduces your income taxes.



Company Match

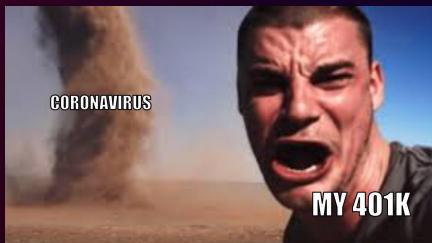
Your employer can deposit contributions to your 401(k). Most commonly, the employer deposits \$0.50 for every \$1 you contribute, up to 6% of your salary.



Potential Tax Savings

In a 401(k), you don't owe taxes annually on interest, dividends, or profits earned. You won't pay taxes until you withdraw funds from the account.

The Motley Fool



1. Your Gross Pay was adjusted as follows to produce

Wages, Tips, other Compensation
Box 1 of W-2

Gross Pay	36,724.31
Less 401(k) (D-Box 12)	913.80
Reported W-2 Wages	35,810.51

Note - Fringe benefits include : Other \$6,492.83

IRA

individual account

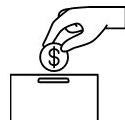
Contribute PRE-TAX Dollars

Reduces your income (taxes too)

\$6,500 Contribution Limit

Deduct tax now, pay later

Traditional IRA



Contributions tax deductible in year made



Tax deferral on earnings (no tax while money is in account)



Distributions are fully taxed as ordinary income

VS

Roth IRA



Contributions not tax deductible in year contributed



Tax deferral on earnings (no tax while money is in account)



Distributions are tax free

ROTH IRA

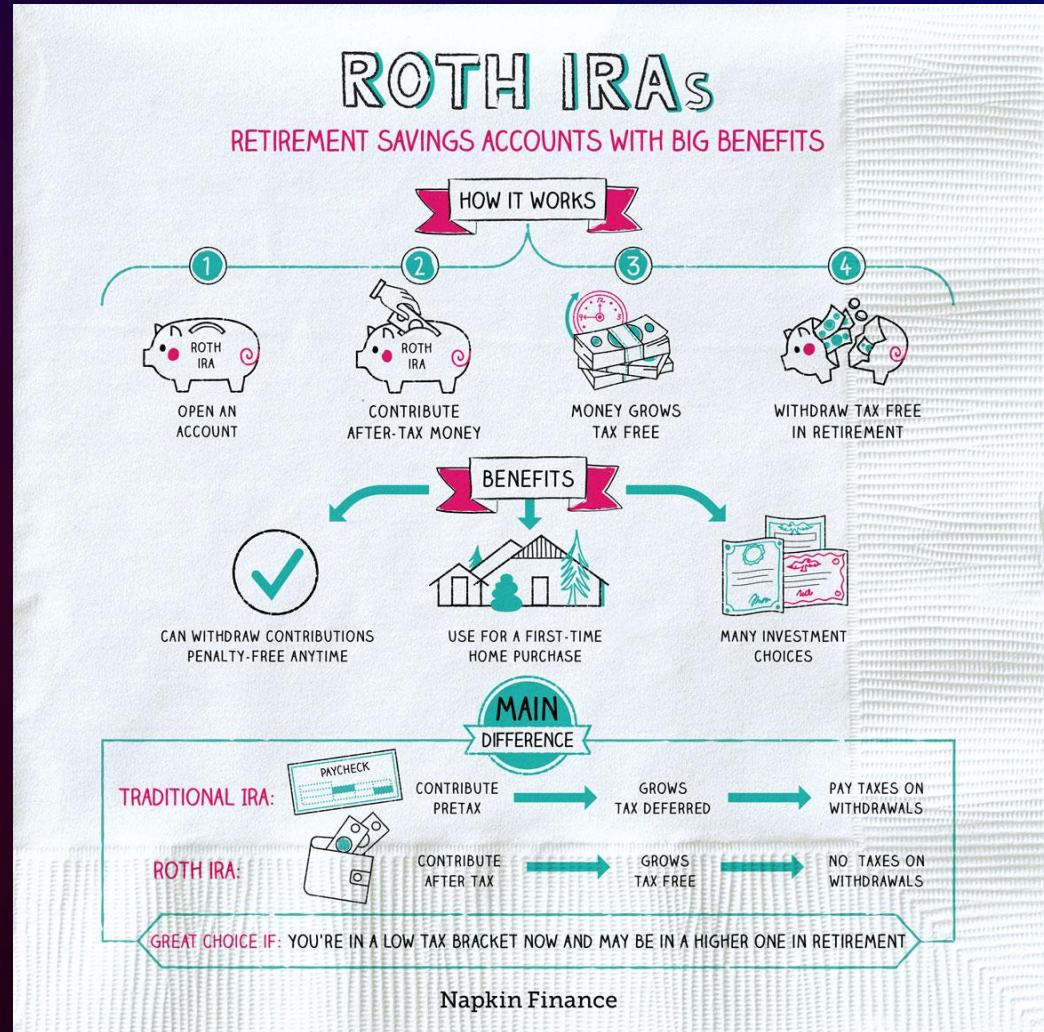
individual account

Contribute POST-TAX Dollars

\$6,500 Contribution Limit

\$144,000 Income Limit
(backdoor Roth)

Pay tax now, none later



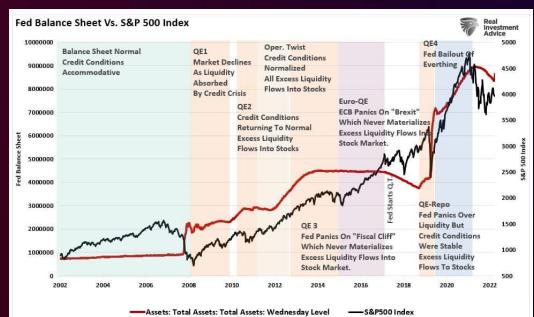
TAX BET

Roth vs. Traditional Retirement Accounts

No Change in Tax Rate	Traditional	Roth
Pre-tax investment	\$10,000	\$10,000
Tax rate (now)	0%	20%
After-tax investment	\$10,000	\$8,000
Pre-tax rate of return	100%	100%
Pre-tax gain	\$10,000	\$8,000
Tax rate (retirement)	20%	0%
After-tax value	\$16,000	\$16,000
After-tax rate of return	60%	60%

Taxes Go Up 50%	Traditional	Roth
Pre-tax investment	\$10,000	\$10,000
Tax rate (now)	0%	20%
After-tax investment	\$10,000	\$8,000
Pre-tax rate of return	100%	100%
Pre-tax gain	\$10,000	\$8,000
Tax rate (retirement)	30%	0%
After-tax value	\$14,000	\$16,000
After-tax rate of return	40%	60%

ROTH 401(K)	REGULAR 401(K)
\$10,000	\$10,000
- \$2,800	- \$0.00
\$7,200	\$10,000
INITIAL CONTRIBUTION	
ASSUME THE INVESTMENT TRIPLES OVER TIME	
\$21,600	\$30,000
- \$0.00	- \$8,400
\$21,600	\$21,600
BALANCE AFTER TAX	

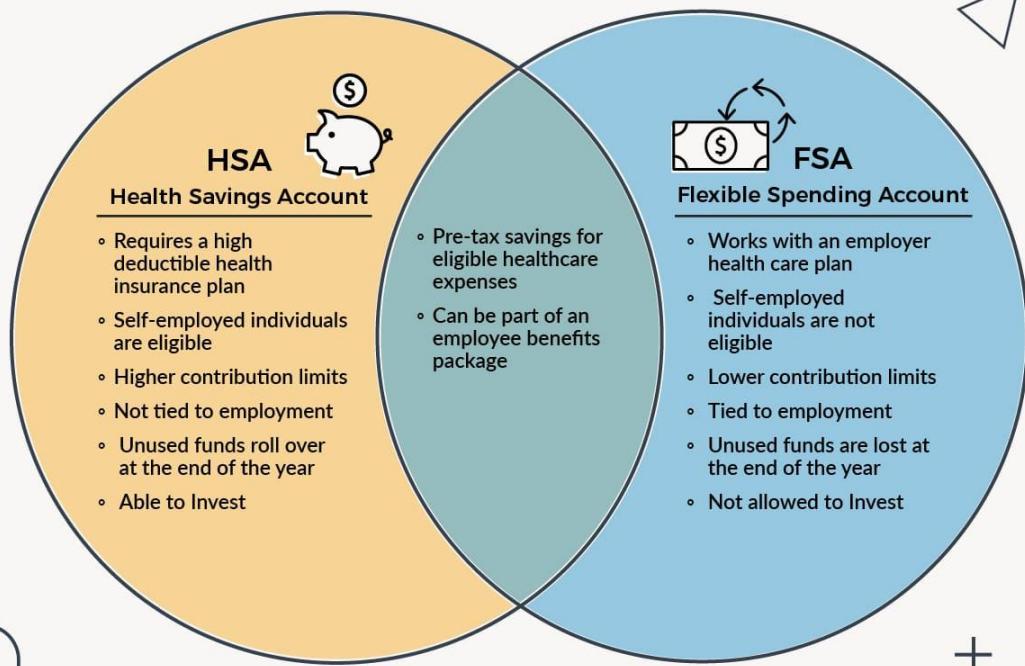


Employer Match

Financial	Google	Microsoft
	✓ 401k 50% match on employee's contribution up to \$19500. Google will match up to the greater of (a) 100% of your contributions up to \$3,000 or (b) 50% of your contributions up to the IRS limit per calendar year. Every dollar of the match is fully vested	✓ 401k 50% match on employee's contribution up to \$20500. IRS max contribution limit
	✓ Flexible Spending Account (FSA)	✓ Employee Stock Purchase Program (ESPP) Allows contributions up to 15% of base salary. 10% discount on purchase price of stock
	✓ Mega Backdoor Roth IRA	✓ Flexible Spending Account (FSA)
	✓ Roth 401k	✓ Mega Backdoor Roth IRA
	✓ Student Loan Repayment Plan Google will match 100% of your student loan contributions up to a \$2,500 annual cap, with those contributions applying towards the principal of your student loan	✓ Roth 401k
		✓ Student Loan Repayment Plan Microsoft partners with Sofi to offer reduced interest rates with 0.25% discount if employees refinance

HSA / FSA

HSA vs. FSA



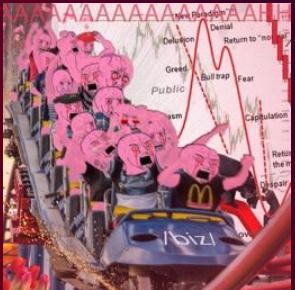
Commuter Benefits

\$300 a month, tax free

\$3,600 a year

Train, Bus, Parking, Uber

Capital Losses



It rolls over, it's fine



Investing
\$8.25

▼ \$432,345.45 (99.98%) Past Week

It'll write off eventually...

Capital Gains



Short-Term & Long-Term Capital Gains Tax Rates By Income For Singles		
Income	Short-Term Capital Gains Tax Rate (Income Tax Rate)	Long-Term Capital Gains Tax Rate
Up to \$11,000	10%	0%
\$11,001 to \$44,725	12%	0% up to \$44,625
\$44,726 to \$95,375	22%	15% over \$44,625
\$95,376 to \$182,100	24%	15%
\$182,101 to \$231,250	32%	15%
\$231,251 to \$578,125	35%	15% up to \$492,300
\$578,125+	37%	20% over \$492,300

ST capital gains tax is a tax on profits from the sale of an asset held for <1 year
ST capital gains tax rate = federal marginal income tax rate

Source: IRS, FinancialSamurai.com

TAX REFUND

• Taxes

Federal Income Tax

Social Security Tax

Medicare Tax

IL State Income Tax

WA Paid Family Leave Ins

WA Paid Medical Leave Ins

\$10,411.96 ^

\$5,668.58

\$2,276.91

\$532.50

\$1,772.63

\$113.06

\$48.28

Filing ▾



Federal Refund ?

\$5,669



IL Refund ?

\$269

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Why do you care so much?

Step 1: Initial Investment

Initial Investment *

\$10,000

Amount of money that you have available to invest initially.

Step 2: Contribute

Monthly Contribution

\$2,000

Amount that you plan to add to the principal every month, or a negative number for the amount that you plan to withdraw every month.

Length of Time in Years *

40

Length of time, in years, that you plan to save.

Step 3: Interest Rate

Estimated Interest Rate *

9

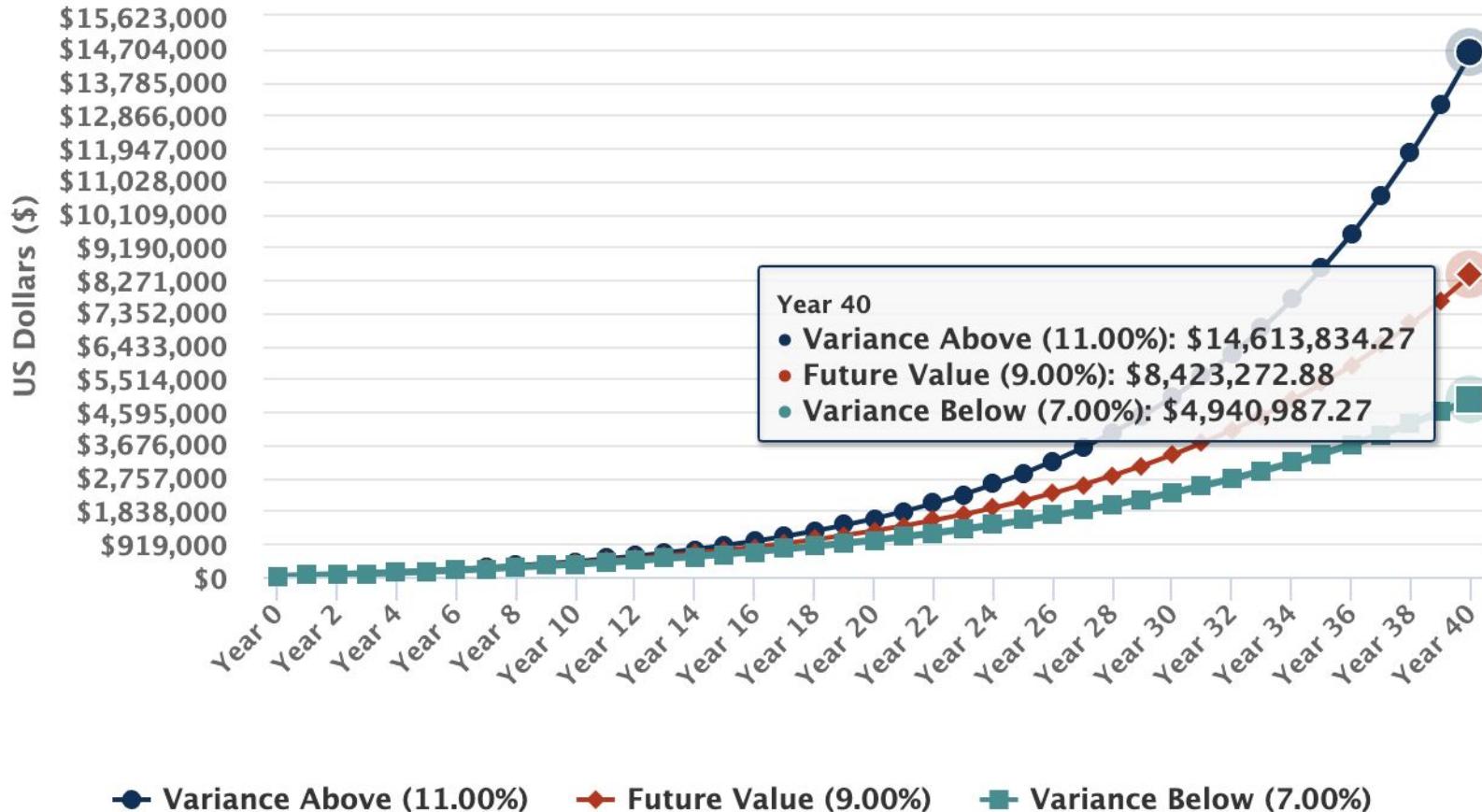
Your estimated annual interest rate.

Interest rate variance range

2

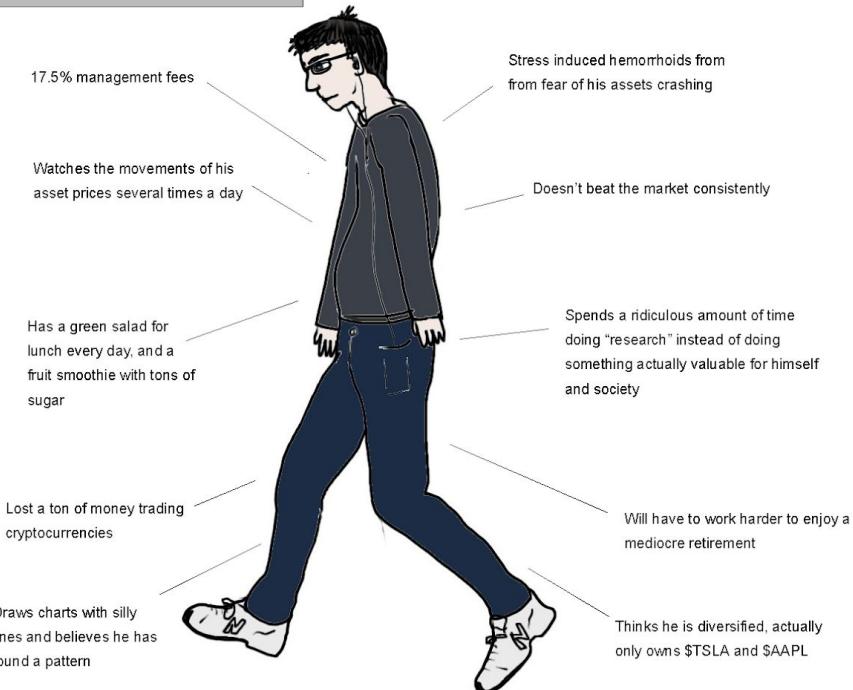
Range of interest rates (above and below the rate set above) that you desire to see results for.

Total Savings

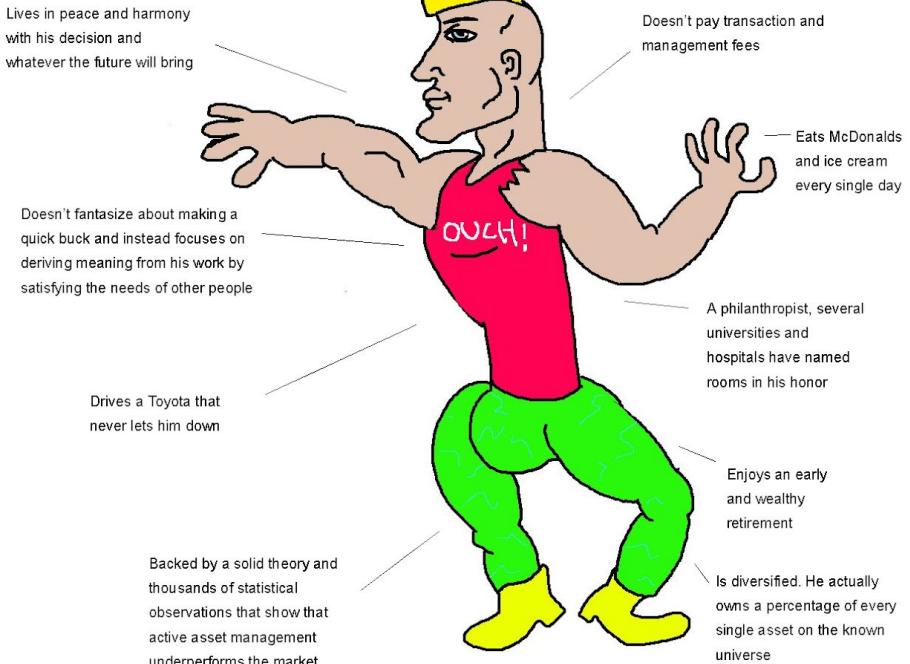


Active vs. Passive Investing

The Virgin Technical Trader



THE CHAD PASSIVE INVESTOR



Short term: “Buy low, sell high” vs. Long term: “Buy and hold”

Active vs. Passive Investing



Day Trading for a Living?

9 Pages • Posted: 22 Jul 2019 • Last revised: 15 Jun 2020

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Date Written: June 11, 2020

Abstract

We show that it is virtually impossible for individuals to day trade for a living, contrary to what course providers claim. We observe all individuals who began to day trade between 2013 and 2015 in the Brazilian equity futures market, the third in terms of volume in the world. We find that 97% of all individuals who persisted for more than 300 days lost money. Only 1.1% earned more than the Brazilian minimum wage and

The cross-section of speculator skill:
Evidence from day trading

Brad M. Barber^a Yi-Tsung Lee^b Yu-Jane Liu^c Terrance Odean^d

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<https://doi.org/10.1016/j.finmar.2013.05.006>

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Highlights

- Day trading is an equilibrium feature of trading on the Taiwan Stock Exchange.
- We document cross-sectional differences in returns earned by speculative traders.
- Few day traders are able to earn positive abnormal returns net of fees.
- The spread in returns between top-ranked and bottom-ranked speculators is large.
- Variation in investor skill is an important feature of financial markets.

The Failure of Active Management

Percentage of Active Public Equity Funds That Failed to Beat the Index

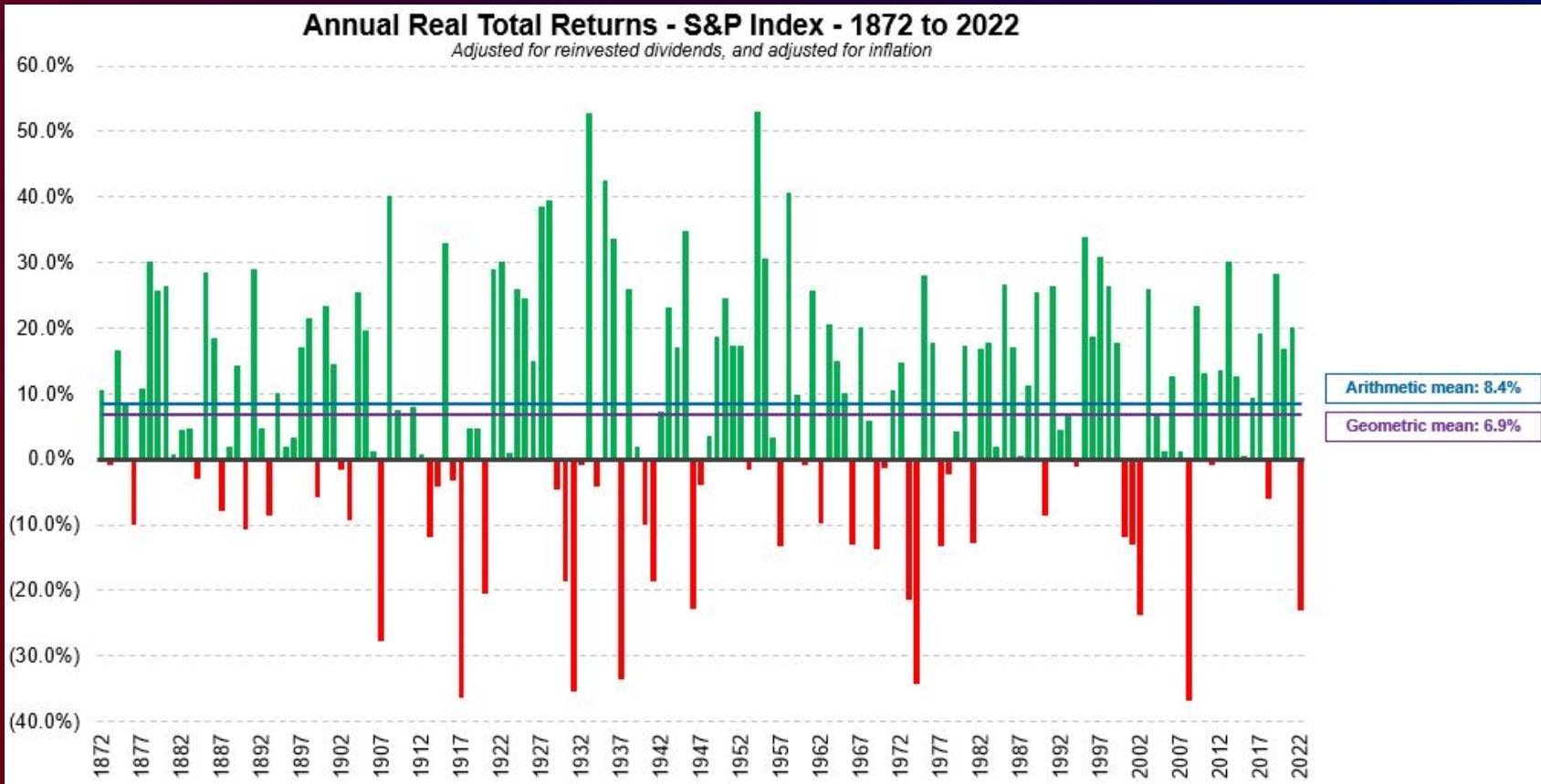


S&P Score Card,
Mid-Year 2011.

Abstract

We document economically large cross-sectional differences in the before- and after-fee returns earned by speculative traders by analyzing day traders in Taiwan from 1992 to 2006. We sort day traders based on their returns in year y and analyze their performance in year $y+1$; the 500 top-ranked day traders go on to earn daily before-fee (after-fee) returns of 61.3 (37.9) bps per day; bottom-ranked day traders go on to earn daily before-fee (after-fee) returns of -11.5 (-28.9) bps per day. Less than 1% of the day trader population is able to predictably and reliably earn positive abnormal returns net of fees.

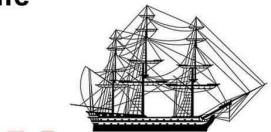
SPY is your guy



ETFs for Passive Investing



thank you
for changing
my life



Vanguard®

i'm literally an index fund

@financejosh

Whole Market:

SPY

VOO

VTI

International:

VXUS

Tech:

QQQ

SOXX 

Energy:

XLE

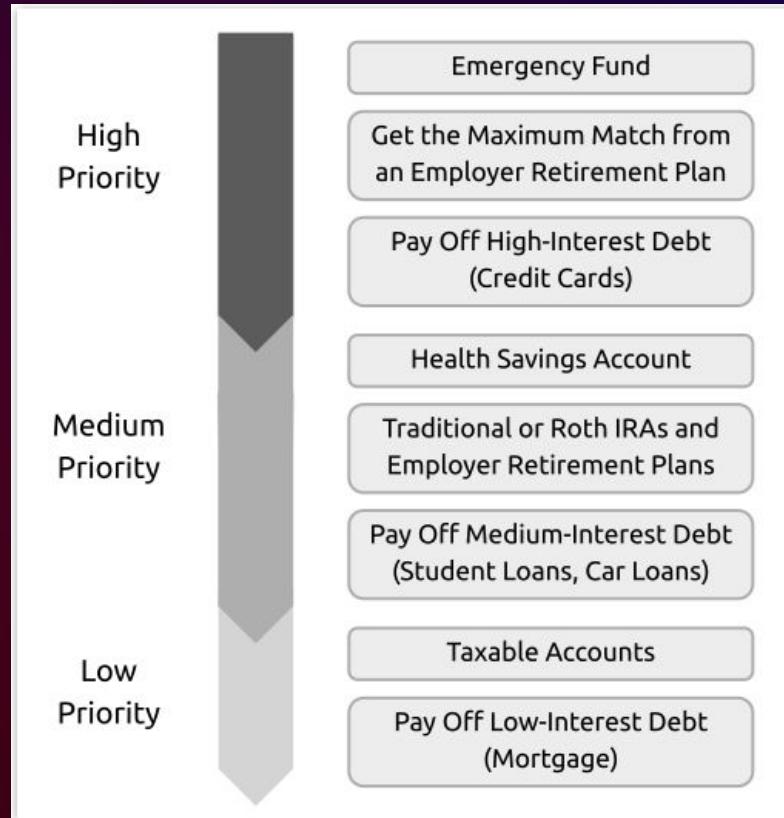
Renewable:

TAN

ICLN

and so many more

Investing Priorities



Note about 401(k)

Brokerages want you to buy their funds and pay a fee (~2/3%)

Most ETF management fees are 0.02 to 0.05%

VOO
Vanguard S&P 500
ETF

Also available as an [Admiral™ Shares](#) mutual fund.

Buy **Compare**

Management style	Index	Asset class
Category	Large Blend	Domestic Stock - General
Expense ratio	0.03% as of 04/29/2022	Risk / reward scale Less More 4
Market price (MP)	\$368.61 as of 03/29/2023	30 day SEC yield 1.63% B as of 02/28/2023
NAV price	\$368.65 as of 03/29/2023	

BrokerageLink →

Accounts & Trade

Trade Transfer

Customize

All Accounts

\$-10,000
AS OF 03/29/2023 11:18 PM ET

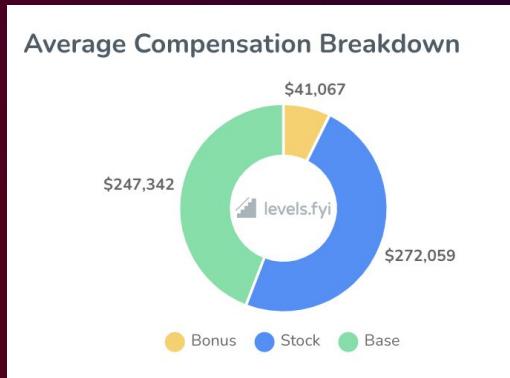
Retirement Accounts	\$-10,000
ROLLOVER IRA 23783	\$-100.00
ROTH IRA 23938	\$-500.00 \$0.00 (+1.06%)
AMAZON 401(K) PLAN 34	\$-900.00
BROKERAGELINK 652	\$-10,100.10 \$0.00 (+1.48%)
Linked to plan AMAZON 401(K) PLAN 34.††	
BROKERAGELINK ROTH 652	\$0.00
Linked to plan AMAZON 401(K) PLAN 34.††	

Golden Rule: Does it outperform?



RSUs

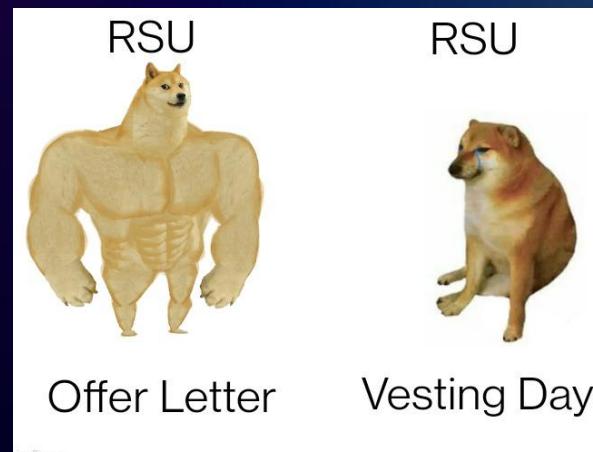
- Equity compensation
- Grants shares based on vesting schedule
- Not yours until vesting requirements met
- Vest = Tax, (put them in retirement account)



RSUs

	Restricted Stock	ISOs or NSOs	RSUs
When to Issue	Before outside capital	After outside capital	Stable valuation
Tax at Grant	= Value price [†] - Grant price × Ordinary income rate	None	None
Tax at receipt**	None	= Value price [†] - Grant price × Applicable tax rate	= Settlement date price × Ordinary income rate
Tax at sale***	= Sale price - Exercise date price × Capital gains rate	= Sale price - Exercise date price × Capital gains rate	= Sale price - Settlement date price × Capital gains rate

*Assumes recipient files an 83(b) election
**AMT for ISOs; ordinary income for NSOs
†“Value” means fair market value per a 409A audit
***Assumes held for more than one year



Agenda

Avoid Taxes

Investing

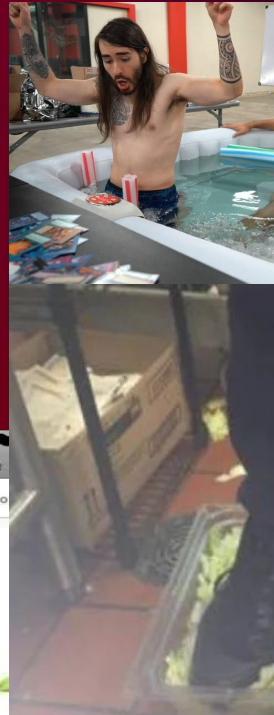
Credit

Budgeting

Chris



CREDIT CARDS



Donations

\$5
Anonymous
14 hours ago

Surgery For My Legs Cause I Can't Stand You Hoes

\$45 raised of \$60,000 goal

YOU MATCHED WITH STEPHANIE ON 6/21/18

Hey Stephanie how's your morning going so far?

Not good hbu

Sorry to hear that. Everything ok? Well I slept in today. It's my day off. And I just got to the gym.

No :)

What's wrong? If you don't mind me asking.

Today is my last chance to pay my rent and I'm only missing 122\$ help me I don't wanna lose everything

Damn sorry I asked. Maybe you should go to work instead of being on Tinder?



What is a credit card?

You “borrow” money from a lender, then pay it off before the statement due date. Like a friend who always Venmo’s you back, you’re demonstrating that you’re responsible with money that you’re borrowing.

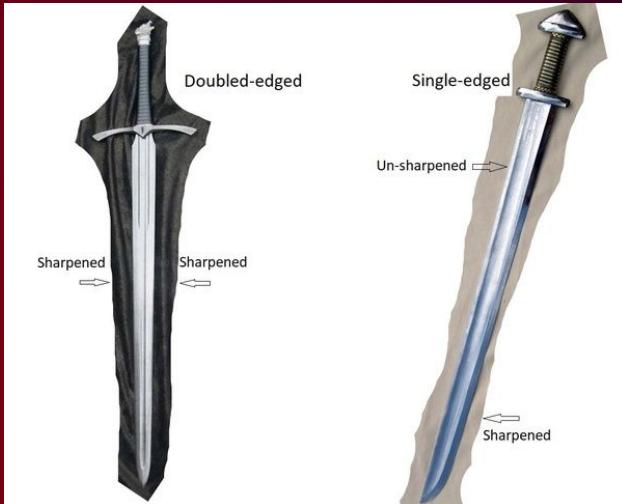


Exhibit A:
Chad Double-Edged Credit Card vs.
Virgin Single-Edged Debit Card



Why use credit cards?

1. **Build Credit** - get better loans, mortgages, etc.
2. **Earn Rewards** - earn cashback or redeem points for travel; sign up bonus
3. **Fraud Protection** - easier to dispute fraudulent charges than debit cards



5% on Chase travel portal
3% on restaurants
3% on drugstores
1.5% on everything else

5% on quarterly rotating categories
1% on everything else

2% on everything



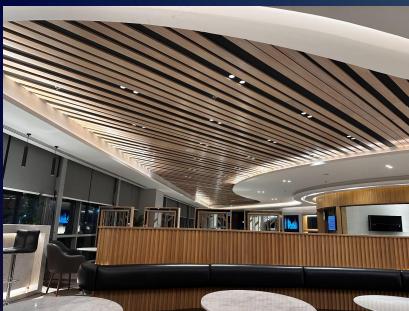
Why use credit cards?



10% on Hotels
5% on Flights
2% on Everything
75,000 bonus miles
\$100 every year

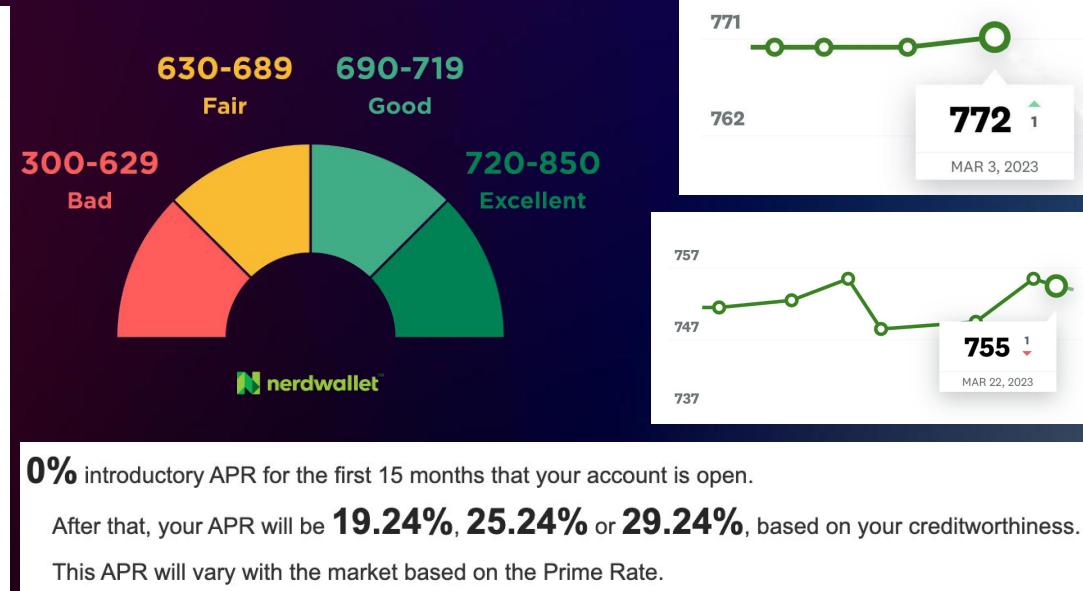
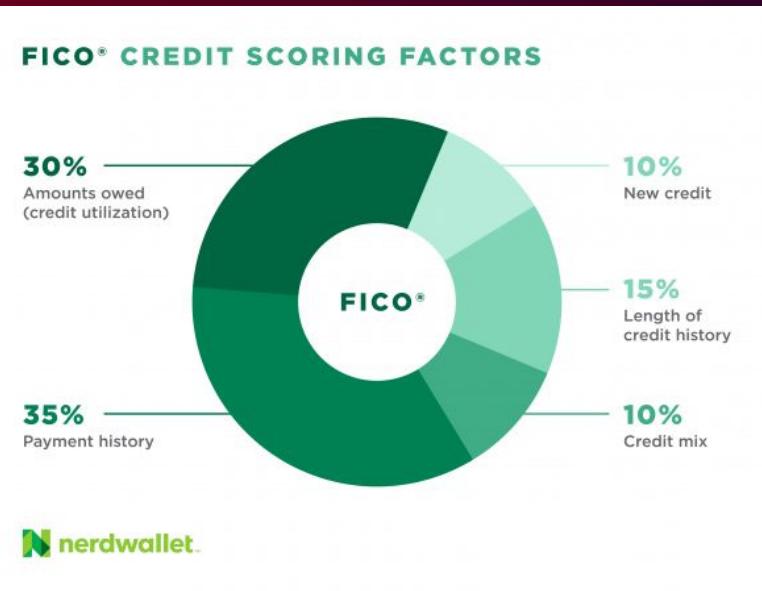


TSA Precheck
Global Entry
Priority Pass —————→



Using Credit Cards Responsibly

1. Treat a credit card like a debit card. **DON'T SPEND MONEY YOU DON'T HAVE.**
2. Set up automatic payments so you **NEVER MISS A PAYMENT.**
3. Always pay your statement balance **IN TIME** and **IN FULL**. Never carry a balance.
4. Stay below 30% credit utilization **PER CARD**. Below 10% is even better for your credit score.
5. Use the **CREDIT KARMA** app to track your credit score and view places of improvement.



Your First Credit Card



Student Cash Back



4.8 Average of 1781 Reviews

[See how we calculate our ratings](#)

[Apply Now](#)

5% cash back at places you love to shop

Students earn **5% cash back** on everyday purchases during the school year (and all year long) at different places each quarter, such as

- Amazon.com⁷
- Grocery stores
- Restaurants
- Gas stations

up to the quarterly maximum when you activate.

And all your other purchases still earn **1% cash back automatically**, with no limit.

Student Credit Cards:

1. No annual fee
2. Near-Instant Approval odds
3. Get a head start to building credit

Authorized User:

1. Do your parents have good credit?
2. Inherit part of their credit score



nerdwallet.com/m/credit-cards/excellent-student-credit-cards

Applying for a Credit Card

1. Make sure you're pre-approved first. Search “[card] pre-approval.”
2. If pre-approved, apply.
3. The company will do a HARD INQUIRY, temporarily reducing your credit score.
4. If accepted, you receive your card, with a maximum credit limit.

Just starting out? **Avoid cards with annual fees** until you have more experience. Don't apply too often.

You're approved, Sam!

Wells Fargo Autograph Visa® Card



Credit limit: \$30,000.00
Instant credit available: \$18,000.00



Citi Custom Cash™ Card

CITI CUSTOM CASH™ CARD

You're all set, PHILLIP!

Your welcome materials and card(s) will arrive in the mail at the address you provided. After they arrive, follow the instructions to activate your card for immediate use.

CARD DETAILS

CREDIT LIMIT
\$5,300.00



<https://www.nerdwallet.com/the-best-credit-cards>





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Budgeting

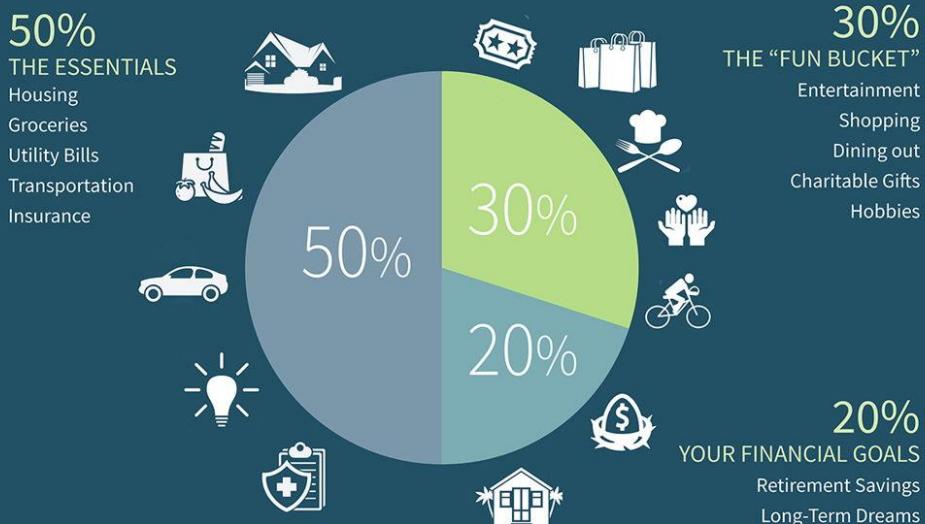
A starting point:
\$4000/mo

50% to needs: \$2000
30% to wants: \$1200
20% to savings: \$800

Remember: just a
starting point! Modify
to suit your situation.

THE 50/30/20 BUDGETING RULE

Having a budget can be essential for a healthy financial future, but how do you get started? A percentage-based budget can be a great way to get the ball rolling towards financial security! This type of budget provides an easy way to divide your after-tax income into 3 categories.



Having a hard time tracking your expenses? There's an app for that! Budgeting apps like Mint, Wally, PocketGuard and EveryDollar, are good places to start! Sign up to receive our Blog & get more information on personal finance! bedelfinancial.com/blog

High-Yield Savings Accounts

1. **High Interest Rate** - 4% vs 0.01% national average
2. **FDIC Insurance** - \$250k per account
3. **Liquidity** - near-instant access to wealth
 - a. Emergency Fund
 - b. Short-Term Savings Goals



 **Wealthfront**
 **Citizens™**
 **SoFi** 

<https://www.nerdwallet.com/best/banking/high-yield-online-savings-accounts>

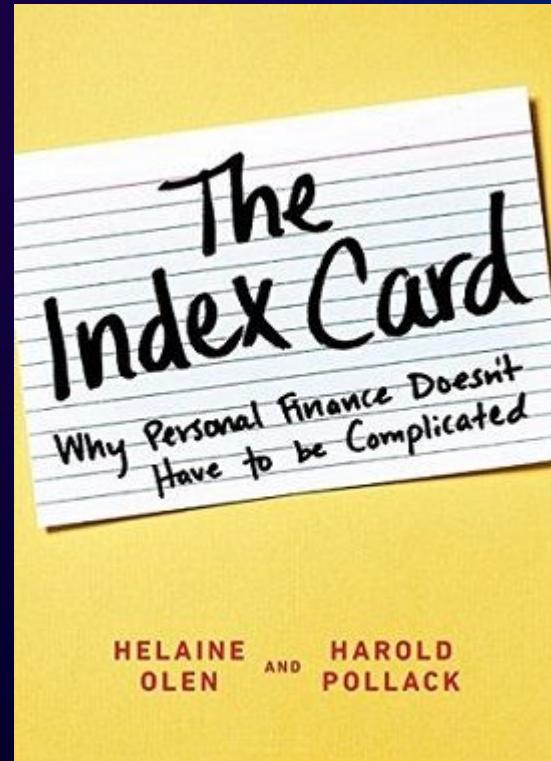
A screenshot of a smartphone displaying a mobile banking application. The top status bar shows the time as 12:45 and various connectivity icons. The main screen displays a summary of financial accounts. At the top right, there are buttons for "Viewing demo mode" and "Share Wealthfront with a friend". Below this, the account summary includes "Today" and "Age 80" sections. A large "Cash" balance of \$61,389.80 is listed. Below the cash section, several savings accounts are listed with their names, descriptions, APYs, and balances:

Account Type	Description	APY	Balance
Individual Cash Account	Individual · 4.30% APY	4.30%	\$0.00
Emergency Fund	Individual · 4.30% APY	4.30%	\$39,924.00
Taxes	Individual · 4.30% APY	4.30%	\$11,817.50
Mom's Money	Individual · 4.30% APY	4.30%	\$4,320.66
Grand Seiko	Individual · 4.30% APY	4.30%	\$0.00
Checking - 4163	Bank of America		\$5,318.76

The bottom right corner of the screen indicates "9 hours ago".

The 97 Commandments

1. **Max your 401(k)** or equivalent employee contribution.
2. **Buy inexpensive, well-diversified mutual funds** (VTI, VOO, VXUS)
3. **Never buy or sell an individual security.** (APPL, AMZN, GOOG)
4. **Save 20% of your money.**
5. Pay your credit card balance **in full every month.**
6. **Maximize tax-advantaged savings vehicles** like Roth, SEP and 529 accounts.
7. Pay attention to fees. **Avoid actively managed funds.**



Action Items not financial advice™

1. Emergency Fund

Get a high-yield savings account (Wealthfront, Sofi, etc.)

Build up at least 6 months of living expenses

2. Saving for Retirement

Open a ROTH IRA account (Fidelity, Schwab, TD Bank, etc.)

Stick to buying ETFs such as VTI, VOO

3. Building Credit

a. Open a credit card (Discover Student It Card)

b. Become an authorized user on your parent's card

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Thank you!