

INCOME TAX

A BIBLICAL PERSPECTIVE

Income tax planning incorporates principles from several of the other topics discussed in your financial plan. Too often, taxes are viewed as the greatest evil under the sun, but basic Scriptural principles of wise stewardship encourage and challenge us to see taxes in a different light. A good steward endeavors to reduce tax liabilities as much as is legally possible, while obeying God's call to be subject to those in authority. However, while lowering your tax bill is important, it should never be the centerpiece of your financial plan. Instead of allowing tax avoidance to be your prime motivator, consider your tax reduction efforts in light of your overall goals for investing, debt reduction, estate distribution, and charitable giving.

“The taxpayer – that’s someone who works for the federal government but doesn’t have to take a civil service examination.”

Ronald Reagan

“Give everyone what you owe him: If you owe taxes, pay taxes; if revenue, then revenue; if respect, then respect; if honor, then honor.”

ROMANS 13:7

GLOSSARY OF INCOME TAX TERMS

ALTERNATIVE MINIMUM TAX (AMT OR ALT MIN): Individual taxpayers are subject to two tax systems: the regular income tax and the alternative minimum tax (AMT). The taxpayer is liable for the larger of the two taxes computed under each system.

CAPITAL GAINS TAX: The tax on the difference between the total proceeds from the sale of an asset (e.g., real estate, stock, mutual fund, equipment) and its tax cost basis (purchase price with adjustments). Generally, the tax rate on assets held for less than one year is greater than the tax on an asset held for a longer period of time.

EFFECTIVE TAX RATE: The total amount paid in taxes divided by total earned income.

FICA (FEDERAL INSURANCE CONTRIBUTIONS ACT): FICA tax is comprised of both OASDI (Old Age, Survivors, and Disability Insurance, also called Social Security tax) and Medicare tax. FICA taxes are a percentage of the taxpayer's wages and are paid by both an employee and employer.

KIDDIE TAX: To reduce the tax savings that results from shifting income from parents to children, the net unearned income (e.g., interest, dividends) of a child under age 14 is taxed at the marginal tax rate of the parents.

MARGINAL TAX RATE: The United States has a graduated tax system that taxes various levels of income at different rates. As a person's income reaches a higher level, their tax rate increases. Therefore, the marginal tax rate determines the amount paid on the next dollar of taxable income.

SELF-EMPLOYMENT TAX: Self-employed individuals pay higher Social Security and Medicare taxes because they, in essence, pay both the employer and employee's share.

SCRIPTURAL INSIGHTS ON PAYING TAXES

"Oh, Lord, my heart is not proud or my eyes haughty; nor do I involve myself in great matters, or in things too difficult for me."

PSALM 131:1

"Dishonest money dwindles away, but he who gathers money little by little makes it grow."

PROVERBS 13:11

"He who is faithful in a very little thing is faithful also in much; and he who is unrighteous in a very little thing is unrighteous also in much."

LUKE 16:10

"And He said to them, 'Then render to Caesar the things that are Caesar's, and to God the things that are God's.'"

LUKE 20:25

"Rather, we have renounced secret and shameful ways; we do not use deception, nor do we distort the Word of God. On the contrary, by setting forth the truth plainly we commend ourselves to every man's conscience in the sight of God."

II CORINTHIANS 4:2