Technical Note: Tax Calculation Methodology

Application: Foothills Property R&R Wealth Planner (v22)

Module: Dynamic Tax Engine

Overview

The Wealth Planner utilizes a sophisticated "Gross-Up" algorithm to estimate future tax liability. Uniquely, **Version 22** includes dynamic inflation adjustments for tax brackets and specific handling for survivor scenarios.

1. Federal Tax Logic

The calculator follows IRS "Provisional Income" rules for Social Security and standard bracket progression.

- **Social Security Taxation:** For the high-net-worth profiles typically modeled, the engine assumes **85%** of Social Security benefits are taxable. The remaining 15% is treated as tax-free cash flow.
- **Bracket Inflation:**
  - **2025/2026:** Uses exact, official IRS legislative numbers.
  - **Future Years:** Applies a compound inflation factor to widen brackets and increase the Standard Deduction, preventing "Bracket Creep" in long-term projections.

2. State Tax Logic & Exemptions

State taxes are calculated on the Total Taxable Income.

- **Standard Logic:** (Taxable Income - Standard Deduction) * State Rate.
- **Exemptions (New in v22):**
  - **North Carolina (NC):** The engine recognizes NC as a "Social Security Exempt" state. The taxable portion of Social Security is **deducted** from the state tax base before the 4.75% rate is applied.
  - **No-Tax States (TX, FL, etc.):** Applied at 0.00%.

3. The "Widow Tax Shock"

Financial planning often overlooks the tax implications of losing a spouse. This tool models it explicitly.

- **The Scenario:** When Spouse Plan Until age is reached, the spouse is removed from the simulation.
- **The Tax Consequence:** The following year, the filing status shifts to **Single**.
  - **Standard Deduction:** Drops by ~50% (e.g., $32,200 $\to$ $16,100$).
  - **Brackets:** The income thresholds for tax brackets are roughly halved.
  - *Result:* A surviving spouse often pays a **higher percentage** of their income in taxes than the couple did previously.

Disclaimer

This methodology provides a high-fidelity estimation for planning purposes. It assumes Standard Deductions. It does not account for complex itemized deductions, RMD specifics, or capital gains tax brackets. Users should consult a CPA for precise tax filing advice.