

Diversifying

APR 4, 2022

Don't Tip the IRS



Speakers

Delyanne Barros, Duke Alexander Moore, Dorothy A Brown, Dorothy Brown, Narrator, Donald Duck, Mandi Woodruff

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Delyanne Barros

Listen, taxes aren't sexy, but they are one of the biggest expenses you'll pay in your entire life.

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Duke Alexander Moore

If you don't want to think about it, you can hire someone to think about it for you. Definitely, you should have at least the basic understanding of how things work.

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Delyanne Barros

Duke Alexander Moore is a certified tax coach. He's better known to his over three million Tik Tok followers as Duke loves taxes.

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Duke Alexander Moore

Taxes impact your everyday life. Like every dollar you make, it has to do with taxes.

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Delyanne Barros

Duke isn't exaggerating when he says taxes impact your everyday life. Understanding how to lower your taxes may help you get a bigger return. But more importantly, managing your taxes is a way to build wealth. So today we're talking about who pays what in our country and why some people pay more than others. Duke will walk us through everything from tax brackets to tax breaks, and we'll hear from a professor who thinks we're getting it wrong.

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Dorothy A Brown

Our tax system is designed for those with higher incomes to pay a higher percentage of their income in taxes, and that's not how the system is working.

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Delyanne Barros

I'm Delyanne Barros. This is diversifying. I've never met anybody who loves taxes like, well, like Duke loves taxes. He got interested in them as a teenager after he landed a couple of modeling gigs.

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Duke Alexander Moore

So I would work with companies like Neiman Marcus, Frito-Lay, J.C. Penney. Um, I know right, got it going on, and I got my 1099 in the mail. What? A 1099? Yeah, I'm like what is this?

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Delyanne Barros

A 1099 is the form a company can use to give tax information to independent contractors or freelancers. Salaried employees get something similar called a W-2. When Duke got his 1099, he asked his parents to drive him down to their local H&R Block so he could figure out what to do with it.

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Duke Alexander Moore

And there they kind of told me like, Hey, look, you're self-employed, you're pretty much a small business owner and you owe taxes. I owed taxes. I thought you're supposed to get a refund, but like I ended up owing taxes like, OK, OK, this is how you are going to play me.

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Delyanne Barros

The accountants explained how important bookkeeping was.

Duke Alexander Moore

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It was super, super interesting because so like, Hey, if you would have done this, this and this, you wouldn't have even owed tax. You could have possibly received a refund. So I'm like OK, this is dope.

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Delyanne Barros

This experience really inspired him to become his own expert. He even started a tax business that's now so busy he can't take on new clients. And part of that is thanks to his huge following on Tik Tok. I never thought I'd be giggling about taxes, but Duke makes it happen. Here's a question you know that I see a lot of TikToks making fun of the situation, but I'm like, Yeah, why is it this way? Why doesn't the government just tell us how much we owe? Why do we have to like, go through this like song and dance and then figure it out? And then the tick tock is always like, Are you going to tell me how much I owe? And they're like, No, and I'm like, Well, what if I get it wrong? They're like prison.

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Duke Alexander Moore

Yeah, straight up and down. Here's the reason why. Because you get access to deductions and credits, you have to be able to claim those credits. For example, you get a W-2 or 1099. Not only do you get it, but also the IRS receives it. So they do know, they do know. And if you fail to file a tax return, they will file one for you. But when they file one for you, they're not going to give you any deductions. They're not going to give you any credits. They don't know your life situation, but by you being able to file your own tax return, you're able to say, Hey, look, I got some kids up in here. I got a business, or I want to claim this credit, this claim that I want to claim this deduction as well. So by filing your own tax return, you're actually empowering yourself to either pay less taxes or get a higher refund. So it's actually a great thing that we are able to file our own taxes. So we're able to tell IRS, Hey, dog look, this is what happened this year and so forth.

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Delyanne Barros

I love that because I was on that side for a long time where I'm like, Why don't you just tell me? But the truth is that they just don't know what's going on in our lives. Like they have no idea if I started a business in the middle of the year, like, I have to notify them of that. So that makes sense. All right. Let's talk about tax brackets because this is something that I can post about literally every day. And somebody will come along and say, Wow, I did not know that's how taxes worked in America. Right? And so we have what's called like a progressive system. So explain to us what that is exactly and how taxes work. And we're talking about income taxes.

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Duke Alexander Moore

The purpose of the progressive system is just the more money you make, the more taxes that you're going to have to pay. And you can easily think of tax brackets as like playoff brackets you advance at a certain level to the next stage. We have seven tax brackets over here and to get into these tax brackets, it all depends on your income level, income level and filing status. It's actually two things, but let's just talk about for single Hey, all my single ladies, all my single ladies. So a very common like understanding or how people think about tax brackets is that if I make thirty thousand dollars, I'm in a 20 percent tax bracket. That means I'm paying 20 percent on all that thirty thousand. No, no, no, no, no. We're not going to do that. We're going to start with the first bracket and we're going to advance to each bracket just like if we were in the playoffs trying to reach a championship.

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Delyanne Barros

For those of us who don't know anything about sports, that's me. Let me break it down another way. If you earn \$10000, you're in one tax bracket. It's the lowest one, 10 percent. But if you earn \$50000, you are now in three tax brackets the 10 percent, the 12 percent and the 22 percent. Different chunks of your money are being taxed at different rates. Some lower than others. When somebody says they're in the 22 percent tax bracket, they're actually in all three. They're just naming the highest one. This is why many people falsely believe that getting a raise or making more money will cause their whole income to be taxed at a higher rate when it's really just one small chunk of it. Let me reinforce this. Never turned down more money because you're scared of being taxed more. I know it seems confusing, and it kind of is. So I had to ask Duke, why don't we all just pay the same tax rate?

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Duke Alexander Moore

Some states actually have what's called a flat tax rate. We're like, OK. No matter what dollar you make, you're going to be paying five percent in taxes on the state level. But on the federal level, they just have this progressive tax rate. They think, Hey, they have a fair rule, like if you make more money, you need to pay more taxes. You need to help us out more like building roads, you know, funding police department, paying for teachers in schools. If you make less money, you actually you're going to pay fewer taxes and you're also going to qualify for certain credits, like earned income tax credit that help you put more money in your pocket. That's the purpose of it is just the level, the playing field in that the rich just pay more taxes,

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Delyanne Barros

a level playing field. Sounds nice, right? That is sometimes more true in theory than in practice. Our system is really more of a ladder than an equal playing field, with everyday employees at the bottom paying the most taxes. And business owners at the top paying the least. Weirdly, only a small fraction of our tax code is about how to pay taxes. Most of it is actually about how to reduce what you pay, which is a perfectly fine and legal thing to do.

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Duke Alexander Moore

For sure yeah, that's tax avoidance versus tax evasion. Evasion we don't want to do. Avoidance is perfectly legal

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Delyanne Barros

Avoidance, totally OK. How people make money and their lifestyle determines which exemptions they're eligible for. To be clear, this applies to the super rich, and it's partly why they pay fewer taxes. But you can also claim some of these same exemptions if you know how. Duke helped me break them down. We're going to start towards the bottom of the ladder, the lowest tax breaks and work our way up. A big one, right, and this is the one that hurts my single Pringle heart. Is that married people? They seem to get more tax breaks? Is that true or is that a misconception?

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Duke Alexander Moore

No, that's a great point. And that actually goes back to really like the tax brackets. So for example, let's say the tax bracket for a single person making ten thousand dollars is 10 percent. For a married couple, that 10 percent is up to \$20000, so they can make up to \$20000 and still be taxed at the 10 percent. What's great about that and where it really comes into play, is like especially if you have one spouse who doesn't work at all and then you have another spouse who does work right? Well, that spouse is going to be able to take advantage of that lower tax bracket because twenty thousand dollars is still going to be at that 10 percent because you have two people filing together.

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Delyanne Barros

You can also move up the ladder and get a tax break. If you buy a house, you can deduct things like the interest on your mortgage. If you're a parent, there's a child tax credit you can take advantage of. There are even tax breaks for some environmental initiatives the government wants to incentivize.

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Duke Alexander Moore

A really great one is if you're adding solar panels to your home, it's a really good credit. It's like 26 percent of the cost of that credit. Retirement credit if you're contributing to a retirement account.

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Delyanne Barros

This is why I tell people it's so important to take advantage of your 401ks, your 403bs, your Roth IRAs. Those accounts are there to lower your taxes. If you haven't listened to our Investing 101 episode yet. That's a great starting point. So go back and check it out. You also get a huge advantage if you're a stock investor using a brokerage account. Think of this as sort of the middle of the ladder.

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Duke Alexander Moore

So let's say if you have a stock and you buy it and then you hold it for less than a year before you sell it, that's called a short term capital gains rate. So it's kind of taxed at your ordinary rate. It's just if it's ordinary income. But the great thing is the long term investing because the IRS, the Congress, they want to reward long term investors, right? They don't want you putting money in to take that thing right out. They're like, hey, look, look, come here. If you can keep this money in here for 365 days or longer, we'll tax at a low rate and have something like zero percent. You know. Off the gains that you make enough to like 20 percent. So there's favorable gain rates, depending on your holding period. Now what stocks? So that's that's really good benefit.

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Delyanne Barros

All right. So let's get to the last rung of the ladder, the business owners. This is like where I live now. I absolutely love it after, you know, 15 years in the employee rung and my tax scheme has completely changed since I've become a business owner. Like you said, there are so many tax deductions that are just not available to employees, right? And my favorite is the opportunity to use the money from your business pretax. Can you explain that benefit more?

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Duke Alexander Moore

Yeah. So let's say two people, one who's an employee, one who's a business owner. Well, the business owner to say that gets paid \$100000. They then pay all their expenses. And then let's say the expenses is like fifty grand, and then they're left with \$50000 in net income. They're going to pay tax on a \$50000. That's pretax. They're incurring their expenses before they are. paying the tax, which is excellent. You get to write off a portion of your rent or whatever you use for business because you need that to, you know, keep going and ongoing. So it's like your once before personal expenses are now becoming a business deduction for you, which is great. Someone who's a W-2 employee gets paid a hundred thousand dollars, they pay tax on \$100000 and then they incur their expenses. If you're an employee, there's no write offs for you, you just got to pay tax on that full amount that you bringing in,

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Delyanne Barros

Like the room that I'm in right now. This is my second bedroom in my apartment this all gets deducted because I use it as my home office, right? If you look at your paycheck, you see gross pay, net pay, and everybody gets mad when they look at those two numbers, right? Like, Oh, that's how much I actually make, but this is how much I'm actually taking home. And that's the thing. Like Uncle Sam takes his bite first when you're an employee. When you're an employer, you get to take the bite first and then he gets the leftovers.

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Duke Alexander Moore

No for sure. Yeah, Uncle Sam does not play around. If you get paid, he's going to want some of that money. So Uncle Sam is not here to play.

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Delyanne Barros

To sum it all up, you can have an employee and a business owner making the same amount of money, but the employee is at the bottom of the tax ladder and the business owner is at the top. Ultimately, the business owner pays a lot less in taxes. Look, there's a ton to know about this topic. We couldn't cover every tax break there is with Duke, so make sure to check out his TikTok or his other pages at Duke loves taxes or get in touch with a CPA in your area. Some even give free consultations. We're going to take a quick break, but when we come back how some of the richest people in the country take tax exemptions to the next level and how systemic racism shows up and who pays what? Stay with us. Money makes a difference in my life. Money makes me happy. Makes me smile. Welcome back to diversifying.

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Dorothy Brown

I do not think our country's tax system is fair because what we know is the wealthiest Americans pay some of the lowest rates in taxes.

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Delyanne Barros

Dorothy Brown is a law professor at Emory University, and she's been studying our tax system for 25 years. Dorothy has some insight into the so-called level playing field we've been talking about.

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Dorothy Brown

Our tax system is designed with those with higher incomes to pay a higher percentage of their income in taxes, and that's not how the system is working.

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Delyanne Barros

Our current tax system dates back to 1918, and when it started out, things looked a lot different.

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Dorothy Brown

The only people who pay taxes back then were the richest Americans, the richest one percent some years, the richest five percent other years. The rest of us. We didn't pay.

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Delyanne Barros

You heard that right back then, only rich people paid taxes. But that changed during World War Two.

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Dorothy Brown

The government needed much more money to fund the war. As a result, tax rates not only increased, but who paid taxes increased. So it moved from being a tax on only the richest to a tax on pretty much everybody.

Delyanne Barros 00:14:27 This meant convincing the entire country they suddenly needed to give up a portion of their pay.

Dorothy Brown 00:14:33 The government literally put out propaganda to argue paying taxes was patriotic.

Delyanne Barros 00:14:42 Here's an example. This is a clip from a short commission by the Treasury Department in 1942 called The New Spirit featuring Donald Duck.

Narrator 00:14:53 Your country is at war. Your country needs taxes for guns. Taxes for ships. Taxes for democracy. Taxes to beat the axis.

Donald Duck 00:15:07 Oh Boy! Taxes to beat the axis!

Narrator 00:15:08 That's the spirit.

Dorothy Brown 00:15:10 And the axis was the axis of evil of Germany, Japan, Italy. OK? Taxes to beat the axis. So that's how they convinced people it was the right thing to do.

Delyanne Barros 00:15:23 Today this has been flipped on its head. The wealthiest Americans, we're talking billionaires here, pay a lower tax rate than most people in the middle class. Some don't pay any federal income tax at all. Like a lot of the tax breaks we heard about from Duke, the way they do this is 100 percent legal. Say, for example, a CEO gets paid in company stock instead of getting a salary, they could make money by selling that stock. But that's not what they do. Instead, they go to a bank and take out a loan for a day to day expenses. And they point to their stock and say, Hey, look, I'm good for it.

Dorothy Brown 00:16:02 So what you do is you take out a loan and you repay it with another loan. And how you secure the loan is, you pledge very valuable stock and the bank thinks, well, if you default, we just take the stock and we'll pay ourselves. But you don't default. You pay off a loan with loan B, and it works as long as you have the wealth to prove to the bank that you are creditworthy enough to keep financing.

Delyanne Barros 00:16:30 Pretty much they live off debt and debt isn't taxed. While this is a loophole that's technically available to all of us, it isn't something most people can actually do.

Dorothy Brown 00:16:42 The typical American doesn't have that relationship with their bank. The typical American doesn't have the wealth that would enable a bank to say, Oh yeah, yeah, you just keep, you know, we're fine. We've got the stock. You pledged it. We're good. So most Americans cannot get away with this. We actually don't have the resources. When banks look at our credit worthiness, they make a different calculation than when they look at Jeff Bezos' credit worthiness. So that's how the really rich can finance their way to no tax bill.

Delyanne Barros 00:17:14 Debt has long been demonized for the poor, but not for the rich. Instead, the rich get to use it as a tax advantage. White people also benefit from our tax system more than black people. This inequity is something Dorothy discovered almost by accident.

Dorothy Brown 00:17:33 So I went in the tax law thinking it had nothing to do with race on purpose because I grew up in the South Bronx, I dealt with racism and I didn't want to have to deal with it at work. But one day, when I'm a law professor, I'm reading an article and the article was written by a mentor and it said, How do you know there isn't a recent tax problem if you don't look and I damn near fell off my chair. I was like, what race and tax?

Delyanne Barros 00:17:56 So Dorothy started looking into it, which was kind of challenging because it turns out the IRS doesn't publish statistics by race.

Dorothy Brown 00:18:04 And that's really important to think about because we have all these other government agencies that publish statistics by race, but not the IRS and not the Treasury, which meant when I decided to write about race and tax, I had to become a detective and look at research elsewhere.

Delyanne Barros 00:18:23
She looked at census data, and soon she started to notice a pattern.

Dorothy Brown 00:18:27
I discovered that when white and black Americans engage in the same activity, buying a home, getting married, having a job. Tax law subsidizes gives a tax break to the way white Americans engage in the behavior, but disadvantage and doesn't afford tax breaks to the way black Americans engage in the behavior.

Delyanne Barros 00:18:52
What this comes down to is a reflection of systemic racism in our tax system. The way a law is written might not explicitly disadvantage black people, but thanks to the way our society is built, that's exactly what happens. Take homeownership. There's a tax break for people who sell their home at a profit. It's a big one. If you're married, you can make up to half a million dollars before you have to start paying any taxes.

Dorothy Brown 00:19:19
So you would say, that's wonderful, Dorothy. That should apply whether you're a black homeowner or a white homeowner. And I would go, you would think so. But the sociology research tells us because of where we live in different neighborhoods and that white homeowners are less interested in buying a home in an all-Black or racially diverse neighborhood. Black homeowners sell their home for less gain than white homeowners.

Delyanne Barros 00:19:49
Black homeowners experience this on the flip side, too, when they sell their homes at a loss. There is no tax break if you don't make any money on the sale of your house. And how does that break down when it comes to race?

Dorothy Brown 00:20:02
The research shows that Black Americans are more likely than white Americans to sell their home at a non deductible loss. So we see that white homeowners are treated better in the tax law than black homeowners.

Delyanne Barros 00:20:18
The tax code doesn't literally discriminate here, but the way it's applied ends up being discriminatory. This happens with tax benefits associated with retirement accounts, too, because black and white people don't have the same access.

Dorothy Brown 00:20:33
And because black Americans tend to work in different jobs than white Americans, we see that white Americans are more likely to work for employers that provide them with the retirement account, and black Americans do not. But even when we see black Americans getting access to the retirement accounts, they're less likely to participate and they're more likely if they do participate to withdraw money and they withdraw money at a higher rate. I argue because they have extended family members that they are taking care of as well. So what we have here is a system, our tax system, that depletes black wealth while increasing white wealth. And that, of course, has dramatic differences on generational wealth.

Delyanne Barros 00:21:29
Paying more in taxes means it's harder to build generational wealth, something you hear me talk about a lot. Without generational wealth. It is so much harder to get ahead and the whole thing becomes an endless cycle.

Dorothy Brown 00:21:42
White Americans are more likely, and it's easier with higher after tax income to save and build wealth to leave their children and grandchildren. Black Americans struggle to make ends meet, wind up paying higher taxes and have less available for their children or grandchildren.

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Delyanne Barros

Dorothy would like to see some systemic changes in place, like the IRS actually starting to publish statistics based on race. She'd also like to see some of the loopholes that give advantage to the wealthy closed. Creating a playing field that's a little closer to equal. Unfortunately, change can be slow. The moral of the story for this episode? Do what you can to make sure you aren't paying more than you absolutely have to. The system is unfair. But with the right information, you can find ways to make it work for you. Duke and Dorothy helped us cover a lot today, so let's highlight some of the best tips you can use. It's time for our money gems. Money gem one tax avoidance is not the same as tax evasion. Avoidance is totally legal and OK, so try to take advantage of as many tax deductions as you can. Money gem two, educate yourself on tax breaks that might apply to you. This is everything from a child tax credit to money back on installing solar panels. Money gem three, if you can swing it, make some money by investing. It's a way to build wealth while you lower your taxes. Money gem four if you want to be at the top of that tax ladder, start a business even if it's a side hustle. It'll open up all kinds of tax exemptions that weren't there before. Money gem five don't turn down a job or a raise just because you're worried about being in a new tax bracket. As a whole, you'll still be earning more and furthering your career. Next Monday, we're covering a hot topic knowing your worth while negotiating your pay.

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Mandi Woodruff

I don't name a number ever. Initially, that would be my first piece of advice. You just don't want to put a number out there. Initial numbers tend to be sticky.

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Delyanne Barros

Make sure to follow us so you don't miss it. And if you like what you heard, please recommend the podcast to your friends and family, then give us a rating and a review. It's really helpful, especially since we're just starting out. Diversifying is a production of CNN Audio. Megan Marcus is our executive producer and Haley Thomas is our senior producer. Our producers are Alex Stern, Kinsey Clarke and Madeline Thompson, our associate producer is Charis Satchell and our production assistant is Eden Getachew. Eduardo Ocampo is our intern. Mixing and sound design by Francisco Monroy artwork designed by Brett Ferdock, Original Music by Andrew Eapen. Our technical director is Dan Dzula, with support from Chip Grabow, Steve Kiehl, Anissa Wells, Abbie Fentress Swanson, Tameeka Ballance-Kolasny, Ashley Lusk, Lindsay Abrams, Rafeena Ahmad, Lisa Namerow, and Courtney Coupe. I'm Delyanne Barros. Thanks for listening.