Couple has chance to climb out of debt

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A PORTION of the inheritance will be used to fund their daughter's first year in college. After that, they are relying on their income to provide the necessary funds.

This will drain a good part of the monthly savings from the debt reduction. As a result, they need to avoid the temptation to take on more debt. This is easy to say but hard to accomplish. Nevertheless, it is important that they strive to do so.

In our opinion, the best way to avoid backsliding is to create a "spending plan." This spending plan should be flexible and allow for contingencies, but it should be a written plan, and it should be reviewed periodically.

From a financial perspective, we recommend viewing the family unit as a business. As with all businesses, there are sources of income and certain definite expenses and also the need for periodic major capital expenditures.

To the extent possible, all future spending decisions should be made in advance and money set aside. By assessing *their financial resources and* then allocating them to the highest priorities, they should be able to meet most of their short term and long term goals.

In deciding which debts to pay off first, they should retire those carrying higher interest rates first, while also being aware of the tax treatment for the various debts.

Generally, mortgage interest remains fully deductible, while personal interest is just 10 percent deductible in 1990 and non-deductible thereafter. Based upon that criteria, we would recommend they pay off the credit cards first, followed by the bank loan and finally the auto loan and second mortgage.

THEY ARE fortunate in having an excellent pension plan. After 30 years of teaching, both will receive almost one half of their salaries. They both elected an optional provision that increases their monthly pensions each year after retirement. For this benefit, they pay 4 percent of their incomes during their working years. In their circumstances, we believe that they made a wise choice.

Along with Social Security, their pensions will provide them with nearly all of the income they anticipate needing at retirement. Nevertheless, we would suggest they make

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modest contributions to a personal retirement plan.

This will help provide them with a cushion and flexibility should any major expenditures be necessary or desired at retirement. It also begins the habit of saving something from their income.

The most efficient savings vehicle for them at this time is the tax-*sheltered annuities available* through their school districts. These provide for tax deductible contributions and tax-deferred earnings.

We would suggest that perhaps $100 per month deducted from each income is a reasonable target, given the other demands on their cash flow. After the children are through college, they should plan on increasing these monthly contributions.

Bill and Sally are lucky that they have the chance to pay off significant debts due to the inheritance. Now with determination and some skill in planning, they can create their own luck in the future.

By following through on the recommendation, we believe they have an excellent opportunity to get ahead and meet their major financial goals.

Dan Boyce, a Certified Financial Planner at the Center for Financial Planning in Southfield, has been recognized by Money magazine as one of the top financial planners in the nation. Alan Ferrara is a partner in the Farmington Hills law firm of Couzens, Lansky, Fealk, Ellis, Roeder & Lazar. Both serve on the board of directors for the Southeast Michigan Chapter of the International Assoiation for Financial Planning.

Everyone feeds the tax collectors

Over the years I have heard of many stories of how rich people pay very little taxes while the low-income taxpayers are taxed heavily. I have also heard complaints from many affluent taxpayers that their less-affluent counterparts do not pay their fair share of taxes.

This column is devoted to finding the "truth" relating to the tax burdens of the low-income, the middle-income, and the high-income taxpayers.

At my request, W. James Piercey, a certified public accountant, developed the accompanying table by making the following assumptions:

- The data relate to a family of four, married, filing a joint return. For each income level the total personal exemption is $8,000 (4 multiplied by $2,000 per exemption).
- The deduction for a given income level is either a standard deviation of $5,000, or 10 percent of gross income, whichever is greater.
- In figuring the tax burden, Social security taxes are added to federal and Michigan taxes.
- Local taxes are ignored.

For a family with a gross income of $60,000, deductions are $6,000 (10 percent of $60,000, which is higher than the standard $5,000 deduction).

Personal exemptions are $8,000, so the taxable income is $46,000 ($60,000 minus $6,000, minus $8,000). Social Security taxes are $3,924, while federal and state taxes are $8,837 and $2,466, respectively.

So the total taxes are $15,227 ($3,924 plus $8,837 plus $2,466), which works out to 25.4 percent of gross income.

The last column of this table reveals two interesting facts:

- Low-income taxpayers do pay a lower percentage of their income in taxes, but the level quickly rises to around 20 percent.
- Affluent taxpayers are not taxed to death. Their tax burden tops out at around 30 percent.

Seminars are scheduled for 7-8:30 p.m. at the offices of Coordinated Financial Planning, Sheffield Office Park, 3250 W. Big Beaver, Suite 540, Troy as follows: May 15: "Tax-free (82%) Annuity Income without Losing the Principle"; May 29: "How to Choose the Best Mutual Fund"; June 12: "What to do with Lump Sum Distribution in Retirement"; June 26: "Reducing Retirement Worries."

For reservations, please call 643-8888.

Sid Mittra is a professor of finance, school of business at Oakland University and owner of Coordinated Financal Planning.

Total taxes — married filing joint return with 4 exemptions

income	deduction	taxable	S.S. tax	Fed. tax	MI tax	total	percent
5,000	5,000	0	383	0	0	383	7.7
10,000	5,000	0	765	0	166	931	9.3
15,000	5,000	2,000	1,148	300	396	1,843	12.3
20,000	5,000	7,000	1,530	1,050	626	3,206	16.0
25,000	5,000	12,000	1,913	1,800	856	4,568	18.3
30,000	5,000	17,000	2,295	2,550	1,086	5,931	19.8
35,000	5,000	22,000	2,678	3,300	1,316	7,293	20.8
40,000	5,000	27,000	3,060	4,050	1,546	8,656	21.6
45,000	5,000	32,000	3,443	4,917	1,776	10,135	22.5
50,000	5,000	37,000	3,825	6,317	2,006	12,147	24.3
55,000	5,500	41,500	3,924	7,577	2,236	13,737	25.0
60,000	6,000	46,000	3,924	8,837	2,466	15,227	25.4
65,000	6,500	50,500	3,924	10,097	2,696	16,717	25.7
70,000	7,000	55,000	3,924	11,357	2,926	18,207	26.0
75,000	7,500	59,500	3,924	12,617	3,156	19,697	26.3
80,000	8,000	64,500	3,924	13,877	3,386	21,187	26.5
85,000	8,500	68,500	3,924	15,137	3,616	22,677	26.7
90,000	9,000	73,000	3,924	16,397	3,846	24,167	26.9
95,000	9,500	77,500	3,924	17,809	4,076	25,809	27.2
100,000	10,000	82,000	3,924	19,294	4,306	27,524	27.5
105,000	10,500	86,500	3,924	20,779	4,536	29,239	27.8
110,000	11,000	91,000	3,924	22,264	4,766	30,954	28.1
115,000	11,500	95,500	3,924	23,749	4,996	32,669	28.4
120,000	12,000	100,000	3,924	25,234	5,226	34,384	28.7
125,000	12,500	104,500	3,924	26,719	5,456	36,099	28.9
130,000	13,000	109,000	3,924	28,204	5,686	37,814	29.1
135,000	13,500	113,500	3,924	29,689	5,916	39,529	29.3
140,000	14,000	118,000	3,924	31,174	6,146	41,244	29.5
145,000	14,500	122,500	3,924	32,659	6,376	42,959	29.6
150,000	15,000	127,000	3,924	34,144	6,606	44,674	29.8
155,000	15,500	131,500	3,924	35,629	6,836	46,389	29.9
160,000	16,000	136,000	3,924	37,114	7,066	48,104	30.1
165,000	16,500	140,500	3,924	38,599	7,296	49,819	30.2
170,000	17,000	145,000	3,924	40,084	7,526	51,534	30.3
175,000	17,500	149,500	3,924	41,569	7,756	53,249	30.4
180,000	18,000	154,000	3,924	43,054	7,986	54,964	30.5
185,000	18,500	158,500	3,924	44,539	8,216	56,679	30.6
190,000	19,000	163,000	3,924	46,024	8,446	58,394	30.7
195,000	19,500	167,500	3,924	47,300	8,676	59,900	30.7
200,000	20,000	172,000	3,924	48,560	8,906	61,390	30.7
205,000	20,500	176,500	3,924	49,820	9,136	62,880	30.7
210,000	21,000	181,000	3,924	51,080	9,366	64,370	30.7
215,000	21,500	185,500	3,924	52,340	9,596	65,860	30.6
220,000	22,000	190,000	3,924	53,600	9,826	67,350	30.6
225,000	22,500	194,500	3,924	54,860	10,056	68,840	30.6
230,000	23,000	199,000	3,924	56,120	10,286	70,330	30.6
235,000	23,500	203,500	3,924	57,380	10,516	71,820	30.6
240,000	24,000	208,000	3,924	58,640	10,746	73,310	30.5
245,000	24,500	212,500	3,924	59,900	10,976	74,800	30.5