



Differences between the detailed and average tax methods

When using NaviPlan Select v12.0, you have the option to choose the Average Tax method, which uses average and marginal rates and simple cash flow, or Detailed Tax method, which uses bracketed rates and detailed cash flow.

Average Tax method

The Average Tax method applies tax rates to income during three different time periods: pre-retirement, retirement, and in the year of death. Although default brackets and rates are provided, these can be overridden. The tax rate applied during pre-retirement, retirement, and in the year of death remains the same for the specified planning period. A limited number of deductions are applied against income, and the alternative minimum tax (AMT) is not supported.

Detailed Tax method

The Detailed Tax method automatically applies the bracketed federal and state tax rates to taxable income on a year-by-year basis. An extensive number of deductions and credits are supported using this method. The AMT is calculated and state tax rates are specific to the clients' state of residence.

You can use the Detailed Tax method to

- Enter unused charitable donations.
- Specify the percentage of income that is taxable.
- Specify a deductible percentage for expenses.
- Enter refundable and non-refundable credits or above-the-line and below-the-line deductions not listed in NaviPlan's deduction or credit reports. You can manually enter these on the *Enter Financial Data* section – *Tax Details* category – *Tax Details* page.
- Define an exclusion amount when selling lifestyle assets.
- Model a policy loan by linking loans to life insurance policies.
- Select additional income and expense types.
- Apply deficit coverage pre-retirement cash flow planning, which liquidates accounts to cover targeted pre-retirement expenses that may cause cash flow deficits.
- Model pre-retirement redemptions.
- Select where to pay taxes from when performing a Roth conversion.

Additional features of the Detailed Tax method include:

- Additional income tax reports and graphs:
 - *Income Tax Details* report
 - *Total Tax* graph
 - *Projected Income Tax Details* report
 - *Marginal Tax Rate* report
 - *Tax Deductions* report
 - *Tax Credits* report
- AMT carryforward
- *Stock Options* module and reports – Includes incentive stock options and non-qualified stock options
- *Business Planning* module and reports – Includes limited liability companies, partnerships, S corporation and C corporation business types
- *Advanced Estate* module and reports – Includes family limited partnerships, grantor retained trusts, charitable remainder trusts, and charitable lead trusts
- Additional cash flow reports – Includes *Retirement Income Summary* report

Selecting the Detailed Tax method

The Detailed Tax method can be selected in one of two ways:

- When creating a new plan, in the *Plan Creation* dialog box – *Income Tax Method* stage. You can set the default by going to the *User Preferences* menu – *Plan Settings* dialog box – *General* tab, and then selecting the default income tax method to be used for all new plans created in v12.
- By clicking the *Convert to Detailed Income Tax* button on the *Plan Management* section – *Modules* category – *Modules* page. This method upgrades an existing plan that was created using the Average Tax method.

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