



**Profiles Professional
Desktop
Incomes and Expenses
Self-Study Guide**

Version 8.0

EISI, Winnipeg

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Incomes and expenses

This module will show you how to enter incomes and expenses for your clients.

Learning objectives

This module will enable you to

- Account for current and future income sources
- Complete a current year income tax analysis within a tax-neutral case
- Enter expenses
- Interpret cash flow and income tax output

Learning tools

This module includes some practice exercises using one of the sample clients provided in the application. If you want to keep this sample client case intact, open the *Sample 4 - Comprehensive (Jones - non-tax).fpx* client case, and then save it with a new case name.

To open and save the client case, follow these steps:

1. Start Profiles Professional.
2. Click **Open Existing Case**, and then click **Open Sample Case**. The *Open Sample Case* screen opens.
3. Click the **Open** link beside *Sample 4 - Comprehensive (Jones - non-tax).fpx*. A *Data Conversion* dialog box may appear to warn you that the planning preferences in this case differ from the global planning preferences. Click **Close**.
4. Click the **File** menu – **Save As**. The *Save Client Data As* dialog box opens.
5. Save the case with a unique name, for example, *Jones – Incomes Expenses Self-Study Guide*.

Please keep in mind that the case we are using for this self-study guide does not have the *Tax-Sensitive* option included.

Account for current income

Profiles Professional - Comprehensive

File Edit Input Output Tools Help

Profiles Professional **Income - Client A**

Case Setup
Case Data
Personal Data
Dependents
Risk Tolerance Profile
Income - Client A
Income - Client B
Direct Income Source
Taxes Withheld
Income Tax - Client A
Income Tax - Client B
Expenses
Assets
Stock Options
Liabilities
General Insurance
Life Insurance
Disability Insurance
LTC Insurance
Retirement
Education Goals
Accumulation Goals
Survivor Cash Needs
Survivor Inc. Needs
Disability Inc. Needs
Estate
Asset Distribution
Distribution Order
Reallocation
Notes
Client Objectives

Income	Monthly	Annual	Annual Total	Nontaxable Portion (Annual)
Salary	\$7,000	\$0	\$84,000	\$0
Self-Employment	\$0	\$0	\$0	\$0
Interest and Nonqualified Dividends	\$0	\$1,400	\$1,400	\$0
Qualified Dividends	\$0	\$0	\$0	\$0
Defined Benefit	\$0	\$0	\$0	\$0
Social Security	\$0	\$0	\$0	
Alimony	\$0	\$0	\$0	
Rental Property (Net)	\$0	\$0	\$0	
Other	\$0	\$0	\$0	\$0
TOTAL INCOME	\$7,000	\$1,400	\$85,400	\$0

Future Earnings Increase %

Back Next

Joe R. Advisor

Figure 1: Case Data – Income - Client A

The *Income - Client A* screen is where you enter current incomes for Client A, and is for calculating current year cash flow only. In *Comprehensive* mode, these numbers do not get carried forward to future years. Incomes only get carried forward in *Detailed Cash Flow* mode. The *Income - Client B* screen is exactly the same as this screen, except that it is for Client B's current income information.

You can use either the *Monthly* column or the *Annual* column to enter gross amounts. For example, you might use both columns if a client gets paid on a monthly basis, but then also gets an annual bonus once a year. Both columns are added for the *Annual Total*.

Under *Nontaxable Portion Annual*, enter items that will not be taxed, for example, money paid for a cafeteria plan, health care, or child care. Use this column only if you are developing an income tax analysis. Do not include contributions made to retirement plans. Contributions to retirement plans should be entered on the *Assets* screen.

The default value for the *Future Earnings Increase* field is determined by the *Long-Term Inflation Rate* field on the *Planning Preferences – General Preferences* screen.

Account for future income sources

Profiles Professional - Comprehensive

File Edit Input Output Tools Help

Profiles Professional **Direct Income Source**

Direct Income Source Number: 1 of 1

Source: Defined Benefit

Name of Source: Tom's Pension

Recipient: Client A

Amount (Monthly - Except for Lump Sum): \$1,000

Present Or Future Value: Present Value

Annual Increase: 2 %

Begin At Age: 65

End At Age: 90

Available At Death of Client A: 0 %

Available At Death of Client B: 100 %

Available at Retirement: 100 %

Back Next

Joe R Advisor

Figure 2: Case Data – Direct Income Source

Future income sources that will be used to meet retirement and survivor needs, such as pensions, are entered on the *Direct Income Source* screen. Click the arrows on either side of the “spin” button to scroll through the different entries. Note that direct income items will not show up on the current year cash flow statement. If clients are currently receiving a direct income such as a pension, list the income on both the *Direct Income Source* screen and the *Income - Client A* or *B* screen. Only then will the income appear on the current year cash flow reports.

If your client is already receiving Social Security retirement benefits, enter the benefits on the *Direct Income Source* screen. However, if you want Profiles to calculate Social Security using the *Social Security Benefits* level selected on the *Personal Data* screen, do not enter Social Security as a direct income source. Social Security income entered on the *Direct Income Source* screen overrides the automatic Social Security calculation and you will have to manually account for all Social Security types including retirement benefits, survivor benefits, disability benefits, lump-sum death benefits, etc., using multiple direct income source entries. See the Help or the Reference Guide for more information about how to enter multiple income sources.

Account for current taxes being paid

Profiles Professional - Comprehensive

File Edit Input Output Tools Help

Profiles Professional **Taxes Withheld**

Case Setup
Case Data
Personal Data
Dependents
Risk Tolerance Profile
Income - Client A
Income - Client B
Direct Income Source
Taxes Withheld
Income Tax - Client A
Income Tax - Client B
Expenses
Assets
Stock Options
Liabilities
General Insurance
Life Insurance
Disability Insurance
LTC Insurance
Retirement
Education Goals
Accumulation Goals
Survivor Cash Needs
Survivor Inc. Needs
Disability Inc. Needs
Estate
Asset Distribution
Distribution Order
Reallocation
Notes
Client Objectives

	Monthly	Annual	Annual Total
Client A			
Federal	\$1,050	\$0	\$12,600
State and Local	\$325	\$0	\$3,900
Self-Employment	\$0	\$0	\$0
OASDI	\$390	\$0	\$4,680
Medicare	\$65	\$0	\$780
Client B			
Federal	\$925	\$0	\$11,100
State and Local	\$275	\$0	\$3,300
Self-Employment	\$0	\$0	\$0
OASDI	\$330	\$0	\$3,960
Medicare	\$55	\$0	\$660
TOTAL TAXES	\$3,415	\$0	\$40,980

Back Next

Joe R Advisor

Figure 3: Case Data – Taxes Withheld

It is important to enter taxes withheld from incomes so that the available cash flow is not overstated. Use the *Taxes Withheld* screen to model the current taxes that are being withheld from your clients' income. The entries you make on this screen will appear on the current year cash flow output pages.

Your client's pay stub is the best source for this information. The information entered on this screen will be used to calculate the taxes your client needs to pay and can be used to help your client with any current year tax savings.

Now let's go to the *Income Tax - Client A* screen to review the tax information that is entered there. This screen is only available if the *Income Tax Analysis* assessment is included in the case.

Complete current year tax analysis

The screenshot shows the 'Profiles Professional - Comprehensive' software interface. The title bar reads 'Profiles Professional - Comprehensive'. The menu bar includes 'File', 'Edit', 'Input', 'Output', 'Tools', and 'Help'. The main window is titled 'Income Tax - Client A'. On the left is a vertical menu with various options, including 'Income Tax - Client A' which is currently selected. The main area contains the following fields and sections:

- Filing Status:** Married/Joint (dropdown)
- Number of Exemptions:** 3 (input field)
- Federal Taxes (Annual):**

Depreciation	\$0
Other Adjustments To Income	\$0
Total Itemized Deductions (+)	\$0
Short-Term Capital Gains (+)/Loss (-)	\$0
Net Long-Term Gain/Loss	\$0
28% Rate Capital Gain/Loss	\$0
Gain Included in Investment Income	\$0
Amount Included in Investment Income	\$0
Unrecaptured Capital Gain	\$0
Taxable Social Security	\$0
Total Federal Tax Credits	\$0
Other Taxes	\$0
- Alternative Minimum Tax:**

Plus/Minus Adjustments	\$0
Plus AMT Preferences	\$0
Foreign Tax Credits	\$0
- State & Local Taxes:**

Estimated Amount	\$0
and / or % of Federal Taxable Income	0 %
- Checkboxes:**
 - Legally Blind:
 - Current Participant in a Qualified Retirement Plan:

At the bottom of the window, there is a status bar with 'Joe R Advisor' on the left and 'Number of exemptions' on the right. 'Back' and 'Next' buttons are located at the bottom right of the main data entry area.

Figure 4: Case Data – Income Tax - Client A

The taxes entered on the *Income Tax - Client A* screen only affect the current year *Income Tax Analysis* report. Remember that we are using a non-tax-sensitive case. If you are going to include the current year *Income Tax Analysis* output page in the client presentation, entering data on this screen is essential. Using last year's data and making the appropriate adjustments, you can show your client their potential tax liability in the current year, while they can still take advantage of some tax-planning strategies. More importantly, it will help you to estimate the average tax rate for your client (especially useful if you will create a tax-sensitive case for this client in the future).

By default, Profiles calculates the *Number of Exemptions* based on the number of clients and dependents in the case. If different from the default value, enter the number of exemptions that the client can claim on his or her 1040 Federal Income Tax return.

Under *State and Local Taxes*, you can enter an estimated dollar figure or a percentage of the federal taxable income. If you enter a dollar amount and a percentage, Professional will combine the two as a

final percentage. You can estimate the percentage by dividing last year's Total State Tax Paid by last year's Taxable Income (from the previous year's 1040 form).

The *Income Tax - Client B* screen is exactly the same as this screen, except that it is for Client B's current income tax information.

Now let's explore how to enter expenses.

Enter expenses

The screenshot shows the 'Profiles Professional - Comprehensive' software interface. The main window is titled 'Profiles Professional' and 'Expenses'. On the left is a navigation menu with options like Case Setup, Case Data, Personal Data, Dependents, Risk Tolerance Profile, Income - Client A, Income - Client B, Direct Income Source, Taxes Withheld, Income Tax - Client A, Income Tax - Client B, Expenses (highlighted), Assets, Stock Options, Liabilities, General Insurance, Life Insurance, Disability Insurance, LTC Insurance, Retirement, Education Goals, Accumulation Goals, Survivor Cash Needs, Survivor Inc. Needs, Disability Inc. Needs, Estate, Asset Distribution, Distribution Order, Reallocation, Notes, and Client Objectives. The main area contains a table for entering expenses with columns for Monthly, Annual, and Annual Total. A table with 12 rows and 3 columns is shown. The rows are: Housing, Child Care, Transportation, Food and Beverages, Clothing, Furnishings, Personal Care and Cash, Medical/Dental/Rx, Education/Self-Improvement, Entertainment, Vacations and Holidays, Charitable Contributions, and Additional Expenses. The final row is TOTAL EXPENSES. The values are: Housing (Monthly: \$1,800, Annual: \$3,000, Annual Total: \$24,600), Child Care (Monthly: \$300, Annual: \$0, Annual Total: \$3,600), Transportation (Monthly: \$750, Annual: \$1,000, Annual Total: \$10,000), Food and Beverages (Monthly: \$425, Annual: \$0, Annual Total: \$5,100), Clothing (Monthly: \$200, Annual: \$0, Annual Total: \$2,400), Furnishings (Monthly: \$0, Annual: \$1,500, Annual Total: \$1,500), Personal Care and Cash (Monthly: \$550, Annual: \$0, Annual Total: \$6,600), Medical/Dental/Rx (Monthly: \$120, Annual: \$0, Annual Total: \$1,440), Education/Self-Improvement (Monthly: \$0, Annual: \$3,000, Annual Total: \$3,000), Entertainment (Monthly: \$300, Annual: \$0, Annual Total: \$3,600), Vacations and Holidays (Monthly: \$0, Annual: \$4,800, Annual Total: \$4,800), Charitable Contributions (Monthly: \$100, Annual: \$0, Annual Total: \$1,200), Additional Expenses (Monthly: \$0, Annual: \$1,400, Annual Total: \$1,400), and TOTAL EXPENSES (Monthly: \$4,545, Annual: \$14,700, Annual Total: \$69,240). At the bottom right are 'Back' and 'Next' buttons. The status bar at the bottom left says 'Joe R Advisor'.

	Monthly	Annual	Annual Total
Housing	\$1,800	\$3,000	\$24,600
Child Care	\$300	\$0	\$3,600
Transportation	\$750	\$1,000	\$10,000
Food and Beverages	\$425	\$0	\$5,100
Clothing	\$200	\$0	\$2,400
Furnishings	\$0	\$1,500	\$1,500
Personal Care and Cash	\$550	\$0	\$6,600
Medical/Dental/Rx	\$120	\$0	\$1,440
Education/Self-Improvement	\$0	\$3,000	\$3,000
Entertainment	\$300	\$0	\$3,600
Vacations and Holidays	\$0	\$4,800	\$4,800
Charitable Contributions	\$100	\$0	\$1,200
Additional Expenses	\$0	\$1,400	\$1,400
TOTAL EXPENSES	\$4,545	\$14,700	\$69,240

Figure 5: Case Data – Expenses

Expenses can also be entered as monthly or annual amounts. It is important to enter incomes and expenses as they occur in real life. For example, if property tax is paid annually, enter it as an annual expense. The *Annual Total* column shows the monthly and annual expenses combined.

Any expenses entered using the *Additional Expenses* button, such as golf membership, will appear on separate lines in the cash flow output pages. Do not enter taxes withheld, liability payments, insurance premiums, or savings for goals on this screen. In *Comprehensive* mode, the information on this screen applies to the current year cash flow only. Expenses only get carried forward in *Detailed Cash Flow* mode.

Interpret cash flow and income tax output

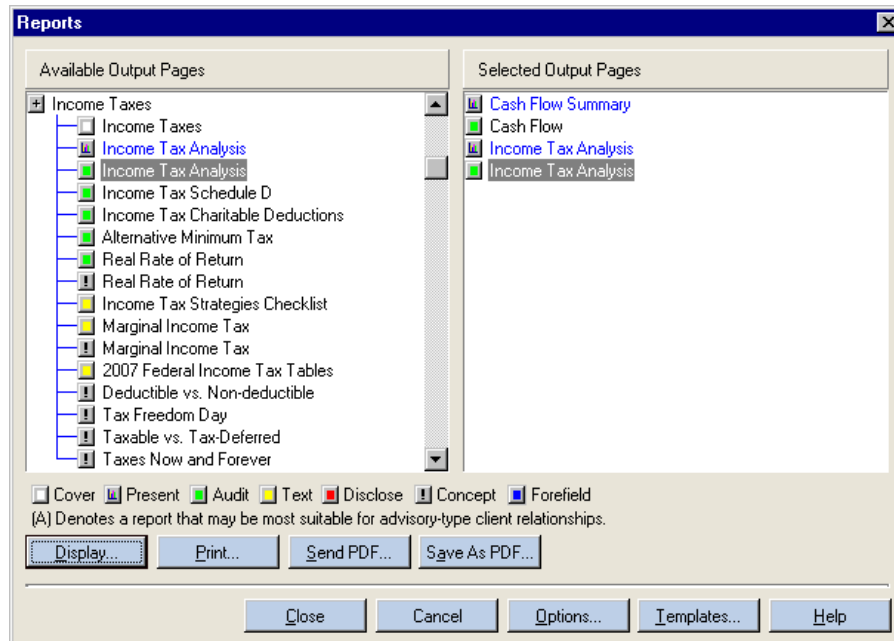



Figure 6: Client Presentation (Cash Flow and Income Taxes output pages selected)

You can access the output pages in three ways:

- Click **Client Presentation** on the left-side navigation bar
- Click the  button (printer with a magnifying glass) on the tool bar
- Click the **Output** menu – **Client Presentation**

Another self-study guide, Organizing Output, covers how to use output pages in more detail.

This guide will briefly discuss the following cash flow and income tax reports:

- Financial Statements – Cash Flow Summary (presentation page)
- Financial Statements – Cash Flow (audit page)
- Income Taxes – Income Tax Analysis (presentation page)
- Income Taxes – Income Tax Analysis (audit page)

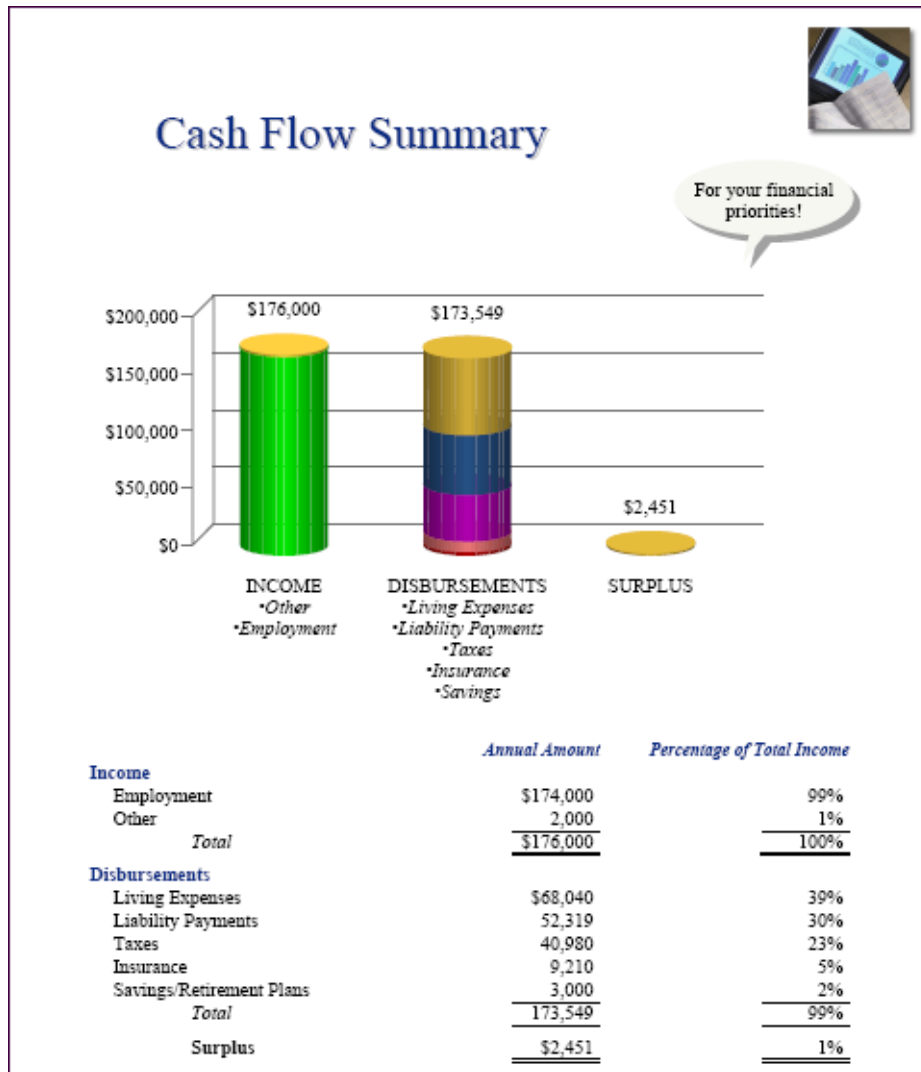


Figure 7: Client Presentation – Financial Statements – Cash Flow Summary (presentation page)

The top half of this report displays the inflow, outflows, and surpluses from the current year cash flow in graphical format. The bottom half of the report displays the numbers that the graph represents.

Use this page to provide your clients with an overview of their cash position. It is especially useful for clients who are not interested in specifics.

If you open a client file that was created in version 7.6, \$0 will appear next to *Liability Payments* because liability payments is a new feature in version 8.0, and no liability payments will have been entered. For more information about entering liabilities, see the Assets and Liabilities Self-Study guide.

Cash Flow			
	<i>Annual Amount</i>	<i>Monthly Average</i>	<i>Percent of Total Income</i>
Income			
Employment - Tom	\$84,000	\$7,000	48%
Employment - Marilyn	90,000	7,500	51%
Interest and Dividends - Tom	1,400	117	1%
Interest and Dividends - Marilyn	600	50	0%
<i>Total Income</i>	<u>\$176,000</u>	<u>\$14,667</u>	<u>100%</u>
Disbursements			
<i>Living Expenses</i>			
Housing	\$24,600	\$2,050	14%
Child Care	3,600	300	2%
Transportation	10,000	833	6%
Food & Beverages	5,100	425	3%
Clothing	2,400	200	1%
Furnishings	1,500	125	1%
Personal Care and Cash	6,600	550	4%
Medical/Dental/Drugs	1,440	120	1%
Education/Self-Improvement	3,000	250	2%
Entertainment	3,600	300	2%
Vacations and Holidays	4,800	400	3%
Charitable Contributions	1,200	100	1%
Pet Care	200	17	0%
<i>Total Expenses</i>	<u>\$68,040</u>	<u>\$5,670</u>	<u>39%</u>
<i>Liability Payments</i>			
Loan for 123 Main Street	\$24,000	\$2,000	14%
Loan for Vehicles	7,800	650	4%
Loan for Coin Collection	1,200	100	1%
Citibank Credit Card	19,319	1,610	11%
<i>Total Liability Payments</i>	<u>\$52,319</u>	<u>\$4,360</u>	<u>30%</u>
<i>Taxes</i>			
Federal - Tom	\$12,600	\$1,050	7%
Federal - Marilyn	11,100	925	6%
State - Tom	3,900	325	2%
State - Marilyn	3,300	275	2%
OASDI/Medicare	10,080	840	6%
<i>Total Taxes</i>	<u>\$40,980</u>	<u>\$3,415</u>	<u>23%</u>
<i>Insurance</i>			
Allstar VUL	\$3,600	\$300	2%
American Life	350	29	0%
Allstar Level Term	900	75	1%
Metro Group Insurance	250	21	0%

Figure 8: Client Presentation – Financial Statements – Cash Flow (audit page)

On the *Cash Flow* audit page, you can see a breakdown of the previous page listing all of the current year inflows and outflows. The bottom of the page will display any surplus, if applicable. Under *Income*, the *Interest and Dividends* lines come from information entered on the *Incomes* screen. Any taxes that appear on this page were entered on the *Taxes Withheld* screen.

You can use this report for data verification if your clients disagree with the *Projected Surplus/Deficit*. Detail-oriented clients, like engineers, like to see pages like this in the output.

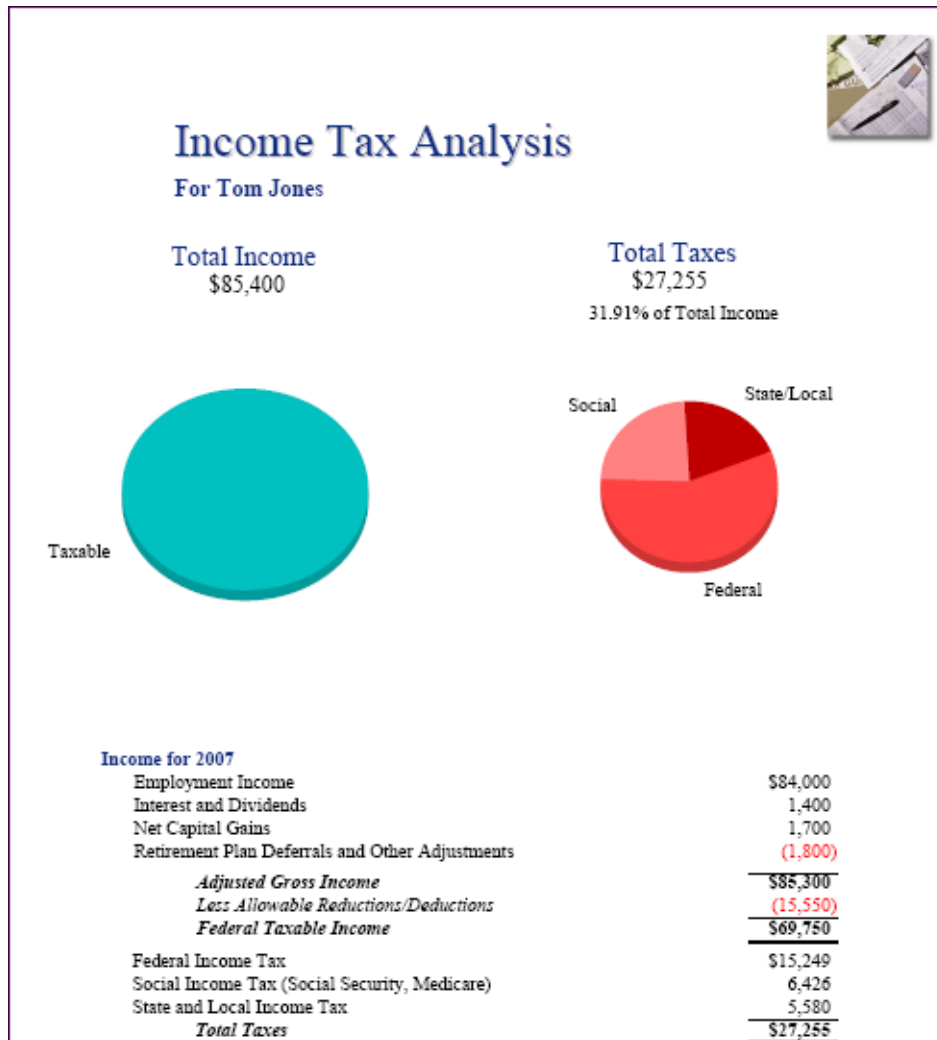


Figure 9: Client Presentation – Income Taxes – Income Tax Analysis (presentation page)

The *Income Tax Analysis* report shows the clients’ total income for the current year next to a pie graph showing their total estimated taxes for the current year. Like the previous *Cash Flow Summary* report, the bottom half of the page displays the numbers that the graph represents.

Use this page to provide your clients with a summary of their projected tax liability. Similar to the *Cash Flow Summary* output page, it is best for clients who aren’t interested in specifics.

Income Tax Analysis		
<i>2007 Tax Year</i>		
For Tom Jones		
Filing Status: Married/Separate		
Income Items and Adjustments		
Salary	\$84,000	
Interest/Dividends	1,400	
Net Capital Gains	1,700	
401(k)/403(b)/SIMPLE Plans	<u>(1,800)</u>	
Adjusted Gross Income		<u>\$85,300</u>
Federal Income Tax Deductions and Exemptions		
Itemized Deductions before phase-out	\$5,000	
Less: Income-based phase-out	(\$142)	
Total Itemized Deductions	\$4,858	
Standard Deduction	5,350	
Higher of Standard or Total Itemized Deductions	\$5,350	
Exemptions (3)	<u>10,200</u>	
Total Reductions To Income		<u>(15,550)</u>
Federal Taxable Income		\$69,750
Regular Federal Income Tax	\$13,870	
Alternative Minimum Tax	15,549	
Higher of Regular Tax or AMT	\$15,549	
Minus Federal Tax Credits	(300)	
Other taxes	<u>0</u>	
Estimated Federal Income Tax		\$15,249

Figure 10: Client Presentation – Income Taxes – Income Tax Analysis (audit page part 1)

The *Income Tax Analysis* output page is a breakdown of the current year estimated tax analysis using the information entered on the *Income Tax - Client A/B* screens. Profiles Professional uses the tax amounts entered on the *Income Tax - Client A/B* screens to estimate the total federal, social, and state tax payable. (The report continues on the next page.)

Social Security and Medicare Taxes	
Social Security Tax (6.20% times maximum of \$97,500 per earner)	\$5,208
Medicare (1.45% times all wages)	1,218
Self-Employment Tax (based on 92.35% of earnings)	
Social Security (12.40% times maximum of \$97,500 per earner)	0
Medicare (2.90% times 92.35% of all earnings)	0
State Income Taxes	
\$0 Plus 8.00% of Federal Taxable Income	5,580
Estimated Total Federal, Social and State Income Taxes	\$27,255
Annual Federal & State Tax Withholdings and Estimated Payments	
Federal	\$12,600
State	3,900
OASDI	4,680
Medicare	780
Self-Employment	0
Total Taxes Withheld	(21,960)
Estimated Tax Due or (Refund)	\$5,295
<hr/>	
Average Tax Rate	
Federal Income Tax	\$15,249
State Income Tax	5,580
Total	\$20,829
Divided by Total Income	\$85,400
Equals Average Tax Rate	24.39%
Social Security, Medicare, and Self-Employment Tax	\$6,426
Social Security, Medicare, and Self-Employment Tax as a Percentage of Income	7.52%
This is not meant to be a complete analysis of your tax situation. It is only an estimate.	

Figure 11: Client Presentation – Income Taxes – Income Tax Analysis (audit page part 2)

The *Estimated Total Federal, Social and State Income Taxes* line amount minus the amount that was actually paid (entered on the *Taxes Withheld* screen) is the *Estimated Tax Due or (Refund)* amount.

The main purpose of the *Income Tax Analysis* output page is to see what the average tax rate is for the client in the preceding year, so that if they go to a tax-sensitive case in the future, you have a basis for what to enter on the *Case Setup – Tax Rates* screen.

Exercises

Exercise 1: Account for incomes and expenses

1. An inheritance that will be received ten years from now would be entered on which of the following screens?
 - a) *Income - Client A*
 - b) *Income - Client B*
 - c) *Direct Income Source*
2. When entering your clients' monthly expenses on the *Expenses* screen, which of the following items should be included?
 - a) Savings towards investment accounts
 - b) Income taxes
 - c) Insurance premiums
 - d) Golf membership fees

Exercise 2: Current year tax analysis

1. Any taxes entered on the *Taxes Withheld* screen will show up on the current year cash flow report.
 - a) True
 - b) False
2. A major benefit of generating the *Income Tax Analysis* (audit) report is to establish your clients' average tax rate based on their federal and state income taxes.
 - a) True
 - b) False

Exercise 3: Output

1. What report would you generate to view a graphical display of your clients' current year cash flow?
 - a) *Financial Statements – Cash Flow* (audit)
 - b) *Financial Statements – Cash Flow Summary* (presentation)

2. Which income tax analysis report will provide you with an estimated State and Federal tax rate?
 - a) *Income Tax Analysis* (audit)
 - b) *Income Tax Analysis* (presentation)
 - c) Both the *Income Tax Analysis* (audit) and the (presentation) output pages

Answers to exercises

Exercise 1: Account for incomes and expenses

2. c) *Direct Income Source* screen
3. d) Golf membership fees

Exercise 2: Current year tax analysis

1. a) True
2. a) True

Exercise 3: Output

1. b) Financial Statements – *Cash Flow Summary* (presentation)
2. c) Both the *Income Tax Analysis* (audit) and the (presentation) output pages