

# Taxes & Income - What If My Wife Stopped Working?

The GYFG household has been in a fortunate situation in that we have been able to live the DINK (dual income no kids) lifestyle. This has had a huge impact on our ability to generate a high income, leading to a high savings rate, and thus a larger net worth faster than we otherwise would have. Seriously, it's a huge advantage to have a two income household.

However, we find ourselves planning the next chapter of our lives, starting a family. In recent discussions, we have been exploring what it would mean to our finances if my wife were to leave her job to be a full-time mom. This would probably only be for a few years and there is a high probability that Mrs. GYFG would find something that she could do part-time on a flexible schedule and potentially from home (she has thought about teaching Yoga). We don't really know the details, but let's just assume that she quits and doesn't earn any income.

In this post, I want to explore what this change would do to our take home income. Of course, we will lose an income stream, but we will also lower our marginal tax rate, at least in the short-term.

## Where Are We Today?

The GYFG Household is currently on track to generate **\$368,888 in gross income in 2017**, broken down from the following sources:

- Mr. GYFG Day Job \$234,000
- Mrs. GYFG Day Job \$107,888 (includes side hustle income, related to day job)
- Rental Income \$17,000
- Blog & Other Income \$10,000

We currently make the \$23,850 in pre-tax contributions:

- Mr. GYFG 401K \$18,000
- HSA \$5,850 (my employer contributes the rest to get us to max of \$6,750)

And lastly, we have itemized deductions of approximately \$65,800 that cover things like:

- Depreciation on rental real estate
- Interest Paid on mortgages
- Property taxes
- Business expenses that get written off against our side-hustles
- Benefits paid pre-tax (i.e health insurance premiums)

So, with that being said, let's use the income tax calculator from SmartAsset to see what our current tax obligation is estimated to be for 2018.

### Estimated Adjusted Gross Income = \$279,288

Household Income \$ 368,888	Location [REDACTED], CA	Filing Status Married	
^ Advanced			
401(k) Contribution \$ 23,850	IRA Contribution \$ 0	Itemized Deductions \$ 65,800	Number of Personal Exemptions 2

Your Federal Income Tax Plus FICA : \$83,713

#### Your Income Taxes

Tax Type	Marginal Tax Rate	Effective Tax Rate	Tax Amount
Federal	33.00%	18.97%	\$69,992
FICA	2.35%	3.72%	\$13,721
State	10.30%	6.34%	\$23,392
Local	0.00%	0.00%	\$0
<b>Total Income Taxes</b>			<b>\$107,106</b>
<b>Income After Taxes</b>			<b>\$261,782</b>

Holy moly!!! \$107,106 in total income taxes (29.03% effective tax rate & 45.65% marginal tax rate), that is a lot of dough. This leaves us with an after tax income of \$261,782.

## Impact of Losing Mrs. GYFG Income

Now let's take a look at what this looks like by subtracting out the income for Mrs. GYFG. In dropping her income from the equation, we will also lose about \$9,420 in deductions against her side income (for business expenses).

Household Income \$ 261,000	Location CA	Filing Status Married	
^ Advanced			
401(k) Contribution \$ 23,850	IRA Contribution \$ 0	Itemized Deductions \$ 56,380	Number of Personal Exemptions 2

Your Federal Income Tax Plus FICA : **\$48,414**

### Your Income Taxes

Tax Type	Marginal Tax Rate	Effective Tax Rate	Tax Amount
Federal	28.00%	14.26%	\$37,228
FICA	2.35%	4.29%	\$11,186
State	9.30%	5.43%	\$14,184
Local	0.00%	0.00%	\$0
<b>Total Income Taxes</b>			<b>\$62,597</b>
<b>Income After Taxes</b>			<b>\$198,403</b>

Our total tax liability drops by \$44,509 or 41.6% and our after tax income drops by \$63,379 or 24%. Although this still amounts to \$5,281/month, it's not nearly as bad as I thought it would be.

*Note: our effective tax rate drops to 23.98% and our marginal tax rate drops to 39.65%.*

In fact, after running the above scenario, I realized that our AGI would fall below the \$186,000 IRA contribution income phase out, which would allow us to potentially stash away another \$5,500/year into an IRA for Mrs. GYFG, but that would be dependent on the growth of my income (which means this would likely only last 1

year at the most).

I am not going to count on it but I will be opportunistic if the opportunity does arrive to stash some more cash into a pre-tax account.

## The X-Factor - Relocating To a State With No Income Tax

This brings us to something I have been contemplating for a couple years now, especially as I have seen our income rise exponentially, so have our state income taxes here in California. There are six states that I know of that do not have state income taxes: Alaska, Nevada, Washington, Wyoming, Texas, South Dakota, and Florida.

The two states we are considering are Texas and Washington. Based on this our income and tax situation would look like the following:

Household Income \$ 261,000	Location Olympia, WA	Filing Status Married	
^ Advanced			
401(k) Contribution \$ 23,850	IRA Contribution \$ 0	Itemized Deductions \$ 56,380	Number of Personal Exemptions 2

Your Federal Income Tax Plus FICA : **\$52,386**

### Your Income Taxes

Tax Type	Marginal Tax Rate	Effective Tax Rate	Tax Amount
Federal	28.00%	15.79%	\$41,200
FICA	2.35%	4.29%	\$11,186
State	0.00%	0.00%	\$0
Local	0.00%	0.00%	\$0
<b>Total Income Taxes</b>			<b>\$52,385</b>
<b>Income After Taxes</b>			<b>\$208,615</b>

We would obviously need to consider places that have a cost of living similar or lower to what we have now. You can see that by moving out of state, this brings our

tax bill down by another \$10,212 and our after tax income increases by the same amount (resulting in a 20% decrease in after-tax income vs. 24% in the example above).

*Note: our effective tax rate in this scenario drops to 20.08% and our marginal tax rate decreases to 30.35%.*

It is also my understanding that although these states don't have income taxes, some of the savings will be offset by an increase in property taxes.

## **Concluding Thoughts**

First, this is not a decision that we plan to make tomorrow, but it's nice to know ahead of time what the ramifications would be. Although a big hit to our take home income, it is far less than I thought it would be.

After writing this out, I admit that the probability of us moving out of state is very low, especially in light of the fact that all of our friends and family live in California. But it was fun to at least run the additional scenario.

It will likely be another year before we actually face making this decision, but being the planners that we are, we like to know the facts far ahead of ever making big decisions like this. In the meantime, I will be working furiously to increase my income to minimize the hit to our current standard of living, savings, and investing.

*Below you will find a copy of the Smart Asset income tax calculator to play with yourself:*

[sa\_captivate type="incometaxcalculator"]

- Gen Y Finance Guy



## Gen Y Finance Guy

**Hey, I'm Dom** - the man behind the cartoon. You'll notice that I sign off as "Gen Y Finance Guy" on all my posts, due to the fact that I write this blog anonymously (at least for now). I like to think of myself as the *Chief Freedom Officer* here of my little corner of the internet. In the real world, I'm a 30-something former C-Suite executive turned entrepreneur turned capital allocator. I am trying to humanize finance by sharing my own journey to Financial Freedom. I believe in total *honesty* and *transparency*. That is why before I ever started blogging, I decided that I would share all of my own [financial stats](#). I do this not to brag, but instead to inspire motivate, and also to hold myself accountable. My goal is to be a beacon of hope, motivation, and inspiration for *you*, the reader, by living life by example and sharing it **all** here on the blog. My sincere hope is that you will be able to learn from me - both from my successes and my failures! [Read More](#)