Tax Credit or Deduction—What's the Difference?

When you gather your financial information at the end of each year, you may ask yourself what the difference is between a tax credit and a tax deduction. A tax *credit* reduces your tax, dollar for dollar—in other words, a $1,000 tax credit would actually save you $1,000 in taxes. By comparison, a tax *deduction* reduces your *taxable income,* and therefore, it is only worth the percentage equal to your marginal tax bracket. For example, if you are in the 25% marginal tax bracket, a $1,000 deduction saves you $250 in tax (.25 x $1,000), which is $750 *less* than the savings with a $1,000 tax credit. The higher your tax bracket, the more a deduction is worth; but, a credit is always worth more than a dollar equivalent deduction.

LITCHFIELD FINANCIAL

Let’s Have a Conversation

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*See award disclosures on the following page.

Disclosures

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*The Five Star Wealth Manager award, administered by Crescendo Business Services, LLC (dba Five Star Professional), is based on 10 objective criteria. Eligibility criteria – required: 1. Credentialed as a registered investment adviser or a registered investment adviser representative; 2. Actively licensed as a registered investment adviser or as a principal of a registered investment adviser firm for a minimum of 5 years; 3. Favorable regulatory and complaint history review (As defined by Five Star Professional, the wealth manager has not; A. Been subject to a regulatory action that resulted in a license being suspended or revoked, or payment of a fine; B. Had more than a total of three settled or pending complaints filed against them and/or a total of five settled, pending, dismissed or denied complaints with any regulatory authority or Five Star Professional’s consumer complaint process. Unfavorable feedback may have been discovered through a check of complaints registered with a regulatory authority or complaints registered through Five Star Professional’s consumer complaint process; feedback may not be representative of any one clients’ experience; C. Individually contributed to a financial settlement of a customer complaint; D. Filed for personal bankruptcy within the past 11 years; E. Been terminated from a financial services firm within the past 11 years; F. Been convicted of a felony); 4. Fulfilled their firm review based on internal standards; 5. Accepting new clients. Evaluation criteria – considered: 6. One-year client retention rate; 7. Five-year client retention rate; 8. Non-institutional discretionary and/or non-discretionary client assets administered; 9. Number of client households served; 10. Education and professional designations. Wealth managers do not pay a fee to be considered or placed on the final list of Five Star Wealth Managers. Award does not evaluate quality of services provided to clients. Once awarded, wealth managers may purchase additional profile ad space or promotional products. The Five Star award is not indicative of the wealth manager ’s future performance. Wealth managers may or may not use discretion in their practice and therefore may not manage their clients’ assets. The inclusion of a wealth manager on the Five Star Wealth Manager list should not be construed as an endorsement of the wealth manager by Five Star Professional or this publication. Working with a Five Star Wealth Manager or any wealth manager is no guarantee as to future investment success, nor is there any guarantee that the selected wealth managers will be awarded this accomplishment by Five Star Professional in the future. For more information on the Five Star award and the research/selection methodology, go to fivestarprofessional.com. 3,580 Boston wealth managers were considered for the award; 463 (13% of candidates) were named 2020 Five Star Wealth Managers. 2019: 3,619 considered, 566 winners; 2018: 2,819 considered, 532 winners; 2017: 2,467 considered, 623 winners; 2016: 2,530 considered, 632 winners; 2015: 3,542 considered, 801 winners; 2014: 1,707 considered, 655 winners; 2013: 2,362 considered, 713 winners; 2012: 2,591 considered, 454 winners.

*The Top 100 in Finance award is designated by the Top 100 Magazine. The Top 100 Magazine utilizes proprietary software, which employs an algorithm to search a variety of online resources for industry-specific terms and key words. These resources include social media, blog posts, peer reviews, and Google indices. Once the software has compiled a preliminary list of qualified candidates, the Top 100 Magazine performs a manual analysis to verify top results and make final selection. The selection criteria is based on who are financial advisors or wealth managers, which meets the following criteria: 1. Registered with the SEC as a registered investment adviser or a registered investment adviser representative; 2. Not more than 1 filed complaint and never been convicted of a felony. Once selected, the Top 100 Magazine sends approximately 140 invites for the magazine, where final section is on a first come first serve basis. Those selected for the Top 100 Magazine may purchase additional profile ad space or promotional products, but do not make any initial or additional fees for the award. The Top 100 Magazine selection is not indicative of the wealth manager ’s future performance or an endorsement by the magazine. Working with a Top 100 Magazine advisor or wealth manager is no guarantee as to future investment success, nor is there any guarantee that the selected wealth managers will be awarded this accomplishment in the future.