AHWATUKEE FOOTHILLS NEWS

POWERFUL TAX STRATEGIES CAN IMPROVE RETIREMENT

September 4, 2019 by Dr. Harold Wong

On December 22, 2017, the Tax Cuts and Jobs Act (TCJA) became law. Virtually all of the provisions take effect starting in 2018. This is the most sweeping tax legislation since the Tax Reform Act of 1986.

The previous article published on August 14, 2019 was titled "Health Professionals Can Face Retirement Challenges!" The easiest way to more retirement savings is to simply save taxes. If one can save $25,000/year of taxes for 20 years and average an 8% annual return, that's an extra $1,235,573 of retirement savings.

There are several powerful tax strategies that can save major tax. The first is maximizing contributions to your own retirement plan. If you are a business owner, you can contribute much more than the limits for those who are employees only.

Case Study #1: A client in South Dakota farms several thousand acres. In one year, he contributed $277,000 to a new defined benefit plan and family 401k. This saved him about $100,000 in taxes. He was in his 60's and had used CPA's for 30 years but had never got a single major tax-saving strategy.

In addition, the $277,000 was set up as self-directed retirement plans, where he was NOT forced to buy Wall Street investments. He used the funds to build the only new house that year in his county and expected to make $25,000+ profit. In contrast, virtually every employee who contributes to a traditional IRA or 401k is forced to buy stocks, bonds, and mutual funds.

Section 179 has been in the tax code since 1958. It allows a taxpayer to deduct or "expense" qualifying property, defined as "depreciable tangible personal property that is purchased for use in the active conduct of a trade or business." The deduction limits have been raised substantially: $2,000 in 1958; $500,000 in 2017; and now $1,000,000 in 2018 and beyond.

The 30% solar tax credit was created by the Energy Policy Act of 2005 and has been renewed twice, most recently in 2015. If the law is not renewed, this tax credit will reduce to 26% in 2020; 22% in 2021, and then 10% in 2022 and beyond.

Case Study #2: A retired couple has 2019 taxable income of $110,000. In 2018, they had a banner year with $160,000+ income. They wanted to convert their $220,000 traditional IRA to a Roth IRA in 2019 to eliminate future Required Minimum Distributions, where the IRS forces increasing annual taxable distributions from traditional IRA's or 401k's. They would now have $330,000 taxable income in 2019.

If they purchase $160,000 of solar refrigeration equipment and lease it to large food companies, Section 179 will generate $136,000 of immediate deductions in 2019 ($160,000 less half of the $48,000 solar tax credit). In addition, they will receive the 30% ($160,000) = $48,000 of solar tax credit. This will reduce 2019 federal tax to $0 and recover all the federal tax paid in 2018. They will now owe $0 tax, no matter how much they earn, on the $200,000 in their new Roth IRA for 3 generations: their lives, their kids' lives, and their grandkids' lives.

Conclusion: there are powerful tax strategies that can lower your current taxes and even recover taxes paid in the previous year. In addition, one can convert 100% taxable IRA's and 401k's to tax-free Roth IRA's without paying lots of tax.

Free Seminar: "How You Can Maximize Your Social Security & Other Retirement Income and Save Big with the New Tax Law" will be held 9:30-11:30 am + Q&A 11:30 am-12 noon, Saturday September 21, 2019, at the Ahwatukee Event Center, 4700 E. Warner Road, NW corner of 48th Street.

Dr. Harold Wong earned his Ph.D. in Economics at the University of California/Berkeley and has appeared on over 400 TV/radio programs.

Contact Dr. Harold Wong at (480) 706-0177 or harold_wong@hotmail.com to RSVP.

For 7 years he wrote the only column on money for The AZ Republic Community Section and now has a new financial column with The Ahwatukee Foothills News and the San Tan Sun News.