Secret Advanced Tax Strategies for 2015

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There are 7 months left in calendar year 2015, which is the typical tax year for most Americans. There are a number of secret advanced tax strategies that can be implemented before December, 31, 2015.

Scenario 1: You are a highly paid small business owner with no non-family employees.

You earn $300,000 net from your business and want to deduct more than the $5,500 annual limit (with an additional $1,000 catchup contribution if you are age 50 or over) for an IRA. You can start by utilizing the solo 401(k). It breaks down the allowable maximum contribution into two parts: the $18,000 employee contribution ($24,000 if age 50 or over); and the employer profit contribution. The employer profit contribution is based on 25 percent of the employee's wages if the company is incorporated or 20 percent of the net profit (reduced by half of the Self-employment tax) if the business is a Schedule C sole proprietor. The total of these two contributions in 2015 is $53,000 if you are under age 50 and $59,000 if you are at least age 50.

Scenario 2: Same situation as Scenario 1 but you want even more income tax deductions.

You might consider opening a defined benefit pension plan. Unlike every other tax-deferred retirement plan (IRA, 401k, 403b, or 457), the limit is based on how much one can contribute each year. The limitation is on the annual retirement benefit which is $210,000. Example from Benefit Equity, Inc.: suppose you are 56 years old and you want to have a $160,000 annual pension beginning at age 66 when you retire. If the IRS assumed interest (assumed earnings of the plan) is 5 percent, you would have to contribute $140,000 annually for 10 years to accumulate $1.8 million. In other words, you would be able to deduct $140,000 annually for each of the next 10 years.

Scenario 3: you want to sell an asset with a $1,000,000 gain that has been held over 1 year and 1 day, so you have $1 million of long-term capital gain.

If you are high income, you could owe up to 20 percent Federal tax plus 3.8 percent Net Investment Income tax plus 0.9 percent extra Medicare tax to fund Obamacare plus whatever your state and city income taxes are. Assume the total comes to 25 percent and so you will be paying $250,000 of tax. On the other hand, if you use the advanced tax strategy that Warren Buffett uses, you will owe $0 income tax.

Scenario 4: Your entire estate is worth $31 million.

If you deduct the $5.43 million estate tax exemption per spouse and you are married (so that it doubles to $10.86 million) you will have about $20 million taxable estate when both spouses die.

The current estate tax rate is 40 percent and your estate will have to pay $8 million in federal estate tax. If you have a family farm or business, it could be forced to stop operating for the benefit of your kids and or grandkids. The common Revocable Living Trust will not solve this estate tax problem. However, if you figure out how to get your assets into a Rockefeller Trust, there are no estate taxes as it passes from you to the kids' to the grandkids' generations. If we assume 30 years for each generation, and the net increase is only 2 percent (after a generous amount of income is distributed to each generation), the estate size will be $184,237,126 in 90 years.

Free Seminars at Desert Foothills Library: On Thursday, 6/4/2015, 4:30-6 pm***, "Secret Advanced Tax Strategies"***; and on Saturday 6/6/2015, 10:30 am-12:30 pm, ***"Secrets of the Rockefeller Trust"*** will be held. Desert Foothills Library is at 38443 N. School house Road, Cave Creek, AZ 85331. To RSVP, call (800) 955-1408.

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