Secret Advanced Tax Strategies

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This article will cover a number of tax strategies that are little known to most taxpayers who do not have access to very expensive tax CPA's and tax attorneys who serve the wealthy. I will give case studies where a particular strategy might be used. Future articles will go into more depth about the various strategies and consider other case studies.

Situation #1: You are a self-employed individual (Schedule C unincorporated or with a corporation) who wants to save tax. You feel you are paying too much taxes and want at least $17,500 of tax deductions. You are not an employee with a company that offers a 401k, but need more tax deductions than the $5,500 annual contribution ($6,500 if age 50 or above) limit for an IRA. ***Solution: You can have a solo 401k***, also known as the family 401k plan. The key is that you are a sole proprietor or operate the business with your spouse and have NO non-family employees. Assume that your spouse works in the business with you and is under age 50. She can contribute $17,500 annually to the solo 401k plan and this is called employee salary deferral. In other words, if your spouse was paid $17,500, she could put ALL of $17,500 into the solo 401k plan. If she was paid $12,000, she could put a maximum of $12,000 into the solo 401k plan.

Assume you are age 50 or older and now you could also contribute a maximum $23,000 employee salary deferral to the solo 401k plan. If you have reasonably high profits, you would want more tax deductions. You can also use the employer contribution (remember you are both the employee and the employer), which is calculated as 20 percent of your net earnings if your are a sole proprietor and 25% if your business is a corporation. There are some technical details involving the calculations, but the concept is what we cover in this article. If you are age 50 or older by December 31st of 2014, you can save up to $56,500 in the solo 401k plan. This is a combination of the employee salary deferral and the employer contribution.

Situation #2: You are a parent or grandparent who wants to leave a tax-free legacy to your younger spouse, kids or grandkids. A retired nurse from CA came into my office almost 3 years ago. She had 2 government pensions and Social Security and so had much more income than she could spend. Her daughter was a high-income MD and her son had died. There were 2 grandsons, twins age 9. We structured a Roth conversion of the $385,000 that she had saved and paid the conversion tax. She does not need the Required Minimum Distribution income and this will not be required once we do the Roth IRA conversion. The 2 grandsons will each get slightly over $2 million of tax-free income over their lives. Once she dies at an assumed age 91, each grandson will get $7,000 annually at age 25; $11,000 at age 35; $17,000 at age 45; $27,000 at age 55; $43,000 at age 65, $69,000 at age 75; and $90,000 at age 80. I realize that not everyone has $385,000 in an IRA, but imagine the legacy left if you only started with $100,000 and it became up to $1 million of tax-free income. The multiplier is still 10 to 1.

Free Seminar: ***"Secret Advanced Tax Strategies"*** will be given on Sat. October 25, 2014, from 10-12 noon, followed by a light lunch at 12-1 P.M.; and also on Tues. October 28, 2014, from 6:30-8:30 P.M. preceded by a light supper from 6-6:30 P.M. Call (800) 955-1408 or email haroldwong1@yahoo.com to RSVP. The location is at Keller Williams University, 2077 E. Warner Road, #110, Tempe, AZ 85284.

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