# Secret Advanced Tax Strategies Part 2

10/24/2014 AZ Republic by Dr. Harold Wong

The previous article, ***"Secret Advanced Tax Strategies",*** October 10, 2014 The AZ Republic, can be found at www.DrWongInvestorGuide.com). It covered two little known strategies: the Family or solo 401k and the Roth/Multi-Generational IRA. This article will handle some of the resulting questions in more detail. For those who missed the article, I will restate the basic scenario.

**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 tax and want at least $17,500 of tax deductions. ***Solution: You can have a solo 401k***, also known as the family 401k plan. You must have no non-family employees and so this plan is suitable for the one-person business (with or without his spouse working in the business). If you are age 50 or over, you can contribute the first $23,500 to the solo 401k and add the employer profit contribution, so that the total maximum contribution in 2014 is $56,500, if your profit is high enough.

**Question Number 1:** Can you still contribute to an IRA in addition to your solo 401k contribution? The answer is "Yes".

**Question Number 2:** Is it difficult or expensive to set up a solo 401k? The answer is "No". If you use a reasonable cost independent 401k administrator, the cost can be as low as $500 to set up and $500 of annual fees. There can be lower cost options where the provider of the 401k plan is a Wall Street firm, but then you are tied to their investment choices.

**Question Number 3:** What if you have a few non-family employees? Then, you have to have a normal 401k plan, where the cost to set it up and annual fees may be higher. You also will be subject to "non-discrimination" rules. This means that for permanent (in contrast to seasonal and temporary) employees, they must be allowed into the plan and any employer profit contribution must treat all employees (the owner and everyone else) relatively with equal treatment. This means that the profit contribution must be the same, adjusted for age and income.

**Situation #2: You are a parent or grandparent who wants to leave a tax-free legacy to your younger spouse, kids or grandkids with the Roth/Multi-Generational IRA.** A retired nurse, married, age 75 wanted to leave a legacy to her 2 grandsons, twins age 9, and the most tax-effective strategy is to combine the Multi-Generational IRA (MGIRA) with a Roth IRA conversion. We structured a Roth conversion of her $385,000 traditional IRA and paid the conversion tax with non-IRA funds. The 2 grandsons will each get slightly over $2 million of tax-free income over their lives. The multiplier or gear ratio is 10 to 1.

**How do you Optimize Paying the Roth IRA Conversion Tax?** By converting $385,000 from her traditional IRA to a Roth IRA, that will create $385,000 of taxable income. The law says you can convert all, none, or something in between of your traditional IRA or 401ks to a Roth IRA. When one looks at the tax brackets at the 25, 28, or 33 percent rates, they are very wide. If taxable income is between $73,800 and $148,850, the rate is 25%; between $148,850 and $226,850, the rate is 28%; and between $226,850 and $405,100, the rate is 33%. She decided she could handle converting over a 3-year period. ***The upside to doing a Roth/MGIRA is that up to 3 generations can have tax-free income***, no matter how much her $385,000 earns.

**Free Seminars: "Secret Advanced Tax Strategies"** will be held Sat. 10/25/2014 from 10-12 noon and Tues. 10/28/2014 from 6:30-8:30 P.M. The location is Keller Williams University, 2077 E. Warner Road, Suite 110, Tempe, AZ 85284. To RSVP, call (800) 955-1408 or email haroldwong1@yahoo.com.

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