WIN MAKE GIVE

WEALTH SERIES

PART SEVEN

PAY LESS TAXES

benkinney TRAINING

PAY LESS TAXES

"The hardest thing to understand in the world is the income tax."

- Albert Einstein -

Part Seven - Pay Less Taxes (Legally)

We recently covered how to increase your income. When you increase your income, *sometimes* that means you have to pay more taxes. A typical employee may pay around 40% of their income to taxes, and that number often rises to 60% or so for self employed people. I want to help you pay LESS - legally.

Did you know that the majority of tax law is actually dedicated to how you can reduce your taxes? Only a few pages out of over 6,000 in the tax code are about paying taxes, and the rest of it is about how to not pay taxes, because the government wants to incentivize you to spend money on certain things.

Now, I'm not your tax expert -I'm just walking with you through this wealth building journey- but in this portion of the series, you'll have the pleasure of hearing from my personal tax coach, Tom Wheelwright, CPA: Personal Tax Advisor to "Rich Dad Poor Dad" Author Robert Kiyosaki, founder of WealthAbility, and author of the best-selling book "Tax-Free Wealth: How to Build Massive Wealth by Permanently Lowering Your Taxes."

Tom LOVES taxes, and he's highly qualified to walk us through some legal ways we can reduce the amount of taxes we pay and take advantage of the incentives that are right there that most people miss, simply because they haven't taken the time to understand taxes. I hope this plants a seed so you learn more, hire the right professional, and start saving!

Ben Kinney
Ben Kinney Companies Founder

Hiring your Children

Hiring your child as a legitimate employee of your business can be a great tax-saving strategy.

TAX ADVANTAGES FOR YOUR CHILD:

Say you operate your business as a sole proprietorship, as a LLC, or as a husband-wife partnership. That means you can hire your underage child as a legitimate employee, and his or her wages will be exempt from Social Security tax, Medicare tax, and federal unemployment (FUTA) tax.

Thanks to the Tax Cuts and Jobs Act (TCJA), your employee-child can use his or her standard deduction to shelter up to $12,000 of 2020 wages paid by your business from the federal income tax.

Bottom Line: For 2020, your child will owe nothing to the Feds on the first $12,000 of wages, unless they have income from other sources. Your kid can then set aside some or all of the wages and contribute money to a Roth IRA or a college fund.

TAX ADVANTAGES FOR YOU:

When you hire your child, you get a business tax deduction (for employee wage expense) for money you might have just shoveled out to the kid anyway. The deduction reduces your federal income tax bill, your self-employment tax bill (if applicable), and your state income tax bill (if applicable).

CHILD EMPLOYED BY PARENTS:

Payments for the services of a child under age 18 who works for his or her parent in a trade or business are not subject to social security and Medicare taxes if the trade or business is a sole proprietorship or a partnership in which each partner is a parent of the child.

Please consult with your tax advisor for more details and conditions.

REAL ESTATE TAX STRATEGIES

Tax Benefits of Real Estate

DEPRECIATION:

Residential rental property (buildings or structures) and structural components can be depreciated by 27.5 years using the general depreciation system or 40 years using the alternative depreciation system.

PRIMARY RESIDENCE:

Gains from the sale of a taxpayer's primary personal residence are excluded from capital gains taxation up to $500,000 for married couples and $250,000 for single individuals if the taxpayer has lived in the home for two of the last five years.

MORTGAGE INTEREST DEDUCTION:

The mortgage interest deduction allows homeowners to deduct part of the cost of their mortgage on their taxes. The new tax plan will limit the portion of a mortgage on which you can deduct interest to $750,000, as compared to the current limit of $1 million. Homeowners with existing mortgages will be able to continue to receive the current deduction.

Example: $300,000 loan at 4% interest = $11,904 in interest paid
Total Interest x 30% Tax Rate = $3571 in tax savings this year

PROPERTY TAX DEDUCTION:

The new tax plan has a limit of $10,000 on the amount of state and local property taxes that can be deducted from a homeowner’s federal taxes.

Please consult with your tax advisor for more details and conditions.

Tax Strategies for Real Estate Owners

TAKE ACTION: Make a list of things you may be able to deduct to review with your advisor related to your real estate holdings. If you rent, take the time to calculate what it costs you to be renter and how much you would save on taxes each year if you owned real estate.

Please consult with your tax advisor for more details and conditions.

BUSINESS OWNER TAX STRATEGIES

Tax Strategies for Business Owners

The primary incentives in tax law are aimed at business owners and investors, so if you want to do something right away to reduce your taxes, the first thing you can do is start a business.

For example, if you start an online, in-home business, you can get deductions for things like:

- **Home Office Deduction:** home office based on the percentage of square footage the home office occupies. Related expenses include mortgage interest, property taxes, utilities, and repairs, etc.
- **General Business Expenses:** such as office supplies, etc. are qualifying business expenses which you may deduct.
- **Meals and Entertainment Expenses:** meals and entertainment expenses qualify as a business deduction within reason.
- **Personal Assets Converted to Business Use:** if you have contributed personal assets, such as a computer, the fair market value of these assets qualify as a business deduction, subject to depreciation limitations, beginning with the date of conversion.
- **Self-Employed Health Insurance:** 100 percent of health insurance premiums for you, your spouse and your children can be deducted.
- **Communications Expenses:** telephones, cellular phones, and internet connections may be deducted.
- **Automobile Expenses:** Mileage and other related automobile expenses can be deducted.

Your business could be something as simple as buying rental properties or an MLM company - as long as your goal is to make a profit.

Please consult with your tax advisor for more details and conditions.

Tax Strategies for Business Owners

TAKE ACTION: List the business(es) you have or brainstorm a business you could start (refer back to your answers in Part Six), and make a list of things you may be able to deduct to review with your advisor.

Please consult with your tax advisor for more details and conditions.

RETIREMENT ACCOUNT TAX STRATEGIES

Pay Less Taxes by Maxing out Your IRA - Individual Retirement Account

You can defer paying income tax on up to **$6,000** that you deposit in an IRA (individual retirement account).

A worker in the 35% tax bracket who maxes out this account will reduce his federal income tax bill by $2,100. Income tax won't apply until the money is withdrawn from the account.

IRA contributions aren't due until your tax filing deadline in April (or until July 15, 2020), so you can plug in an IRA contribution while calculating your taxes to see exactly how much you can save if you shift some cash into an IRA.

Annual Contribution to IRA		**Tax Rate**		**Total Tax Savings**
$	X		=	$

Example: $5,000 invested x 30% Tax Rate = $1,500 in tax savings this year

While couples can't open a joint IRA, you can open an IRA for each spouse and claim double the tax deduction. Couples can defer paying income tax on up to $12,000 if they max out two traditional IRAs, and up to $14,000 if both members of the couple are age 50 or older. You can save in an IRA in each spouse's name, even if one member of the couple didn't work.

Please consult with your tax advisor for more details and conditions.

Pay Less Taxes through Your 401(k)

Many 401(k) plans allow you to log in and increase your 401(k) withholding, which will qualify you for a bigger tax break. This type of workplace retirement account allows employees to defer paying income tax on contributions of up to $19,500 in 2020.

A worker in the 24% tax bracket who contributes the maximum amount to a 401(k) would save $4,680 in taxes.

Those who are in higher tax brackets have the most to gain by contributing to a 401(k) plan. An employee in the 37% tax bracket who maxes out a 401(k) plan could reduce his income tax bill by $7,215. Married couples who are both eligible for a 401(k) plan at work can contribute to a 401(k) in each of their names for double the tax savings.

Annual Contribution to 401(k)		Tax Rate		Total Tax Savings
$	X		=	$

Example: $19,500 invested x 35% Tax Rate = $6,825 in tax savings this year

Please consult with your tax advisor for more details and conditions.

ADVANCED TAX STRATEGIES

Advanced Tax Strategies: Accelerated Depreciation - Cost Segregation

Accelerated depreciation is **a depreciation method where an asset loses book value at a faster rate than the traditional straight-line method**. Generally, this method allows greater deductions in the earlier years of an asset and is used to minimize taxable income.

Commercial and residential building assets can be depreciated either over 39 year straight-line for commercial property, or 27.5 year straight line for residential property as dictated by the current U.S. Tax Code.

The Internal Revenue Service (IRS) allows building owners the opportunity under the Modified Accelerated Cost Recovery System (MACRS) to depreciate certain land improvements and personal property over a shorter period than 39 or 27.5 years.

Certain land improvements can be depreciated over 15 years, with certain personal property depreciated over 7 or 5 years. This depreciation analysis is known as a cost segregation study.

Segregated assets previously defined as real property and reclassified as personal property. (IRS Tax Codes 1245 & 1250, not a loophole).

Cost basis (structure)	**$2,000,000**
% reclassified into 5-year	**20%**
Reclassified assets	**$400,000**
39 year average annual write-off	**$10,256**
5 year average annual write-off	**$80,000**

1031 Exchange

When you own non owner occupied real estate and sell it for a profit then that transaction becomes a taxable event. If your intent is to invest the proceeds of that sale into more real estate then using a 1031 exchange might save you a lot of money.

DEFINITION OF 'SECTION 1031' OF THE UNITED STATES TAX CODE:

Section 1031 is an Internal Revenue Code (IRC) provision that defers tax on qualifying exchanges of like-kind real estate.

The most important steps to a properly structured 1031 exchange are: (1) Replacement real estate must be like-kind. (2) Tax must be paid on any “boot” in the year of the 1031 Exchange. (3) Once business or investment real estate is sold, a replacement must be identified within 45 days and acquired within 180 days.

Many investors mistakenly believe they will “have to pay the taxes sometime” so they might as well just sell. Quite often, this is a bad investment decision. The tax on an exchange is deferred into the future and is only recognized when an investor actually sells the property for cash instead of performing an exchange. Investors can continue to exchange properties as often and for as long as they wish, thus moving up to better investments and putting off the taxes for many year

NOTE: Homeowners may exclude from taxable income up to $250,000 ($500,000 for joint filers) of capital gains on the sale of their homes if they satisfy certain criteria: they must have maintained the home as their principal residence in two out of the preceding five years, and they generally may not have claimed the capital gains exclusion for the sale of another home during the previous two years.

1031 Exchange: Step by Step

1. Decide To Sell And Do A 1031 Exchange: Not every purchase is worth doing the 1031 exchange.

2. List Your Property For Sale: You will then list your property for sale include language in the listing paperwork regarding your desire to do a 1031 exchange.

3. Start Looking For Replacement Properties: Remember, the moment the relinquished property is sold, the countdown of 45 days begins.

4. Find a Qualified Intermediary: Look for a professional with a good reputation.

5. Negotiate and Accept an Offer: When someone agrees to buy your property, you will need to make sure the paperwork clearly states that a 1031 exchange is taking place on your end, and they will need to comply.

6. Close On The Sale Of Your Relinquished Property: Your qualified intermediary will be actively involved in the process, and the funds will transfer to their bank account, not yours.

7. Identify Up to Three Properties Within 45 Days: It’s now time to officially designate the properties you might pursue.

8. Sign Contract on the First Choice Property: Most likely, of the three properties you identified, one will stand out as your first choice.

9. Let Your Qualified Intermediary Work With the Title Company: You, your agent, and your qualified intermediary will work with the title company or closing attorney.

10. Close on the Replacement Property: Finally, the qualified intermediary will wire over your money to the title company or attorney, and the property will close like a normal transaction, deferring your need to pay the taxes until some point in the future, if ever.

Pay Less Taxes - Reflection

What tax saving strategies do I need to look into? What could I potentially write off on my taxes that I haven't up until this point?

How much would maxing out contributions to my retirement reduce my total taxes?

Would owning a business help me pay less taxes? If so, how? What could I write off now?

How could I use owning real estate to pay less taxes? How much?

Part Seven Giveaway Question

For those of you participating in the giveaway, make sure to answer this question and save it somewhere you can access later as you will receive a form at the end of the series with a question from each part. This is a requirement for entering to win up to $5,000 to fund your retirement and help you build wealth.

Question: To change your _____ , change your ______ .

Preparation for Part Eight

- [ ] **Question:** Take a look at last year's tax return and see how much you paid in total income tax. Calculate how much 10-40% of that amount would be _______________.
- [ ] **Question:** If you still had that money, how would you invest it?

Note from Ben Kinney: I highly recommend you reading "Tax Free Wealth" if taxes are a considerable expense to you each year. I am not personally recommending any strategies or advising you in anyway.

Please consult your tax advisor and see which of these strategies could be useful to your overall tax strategy.