

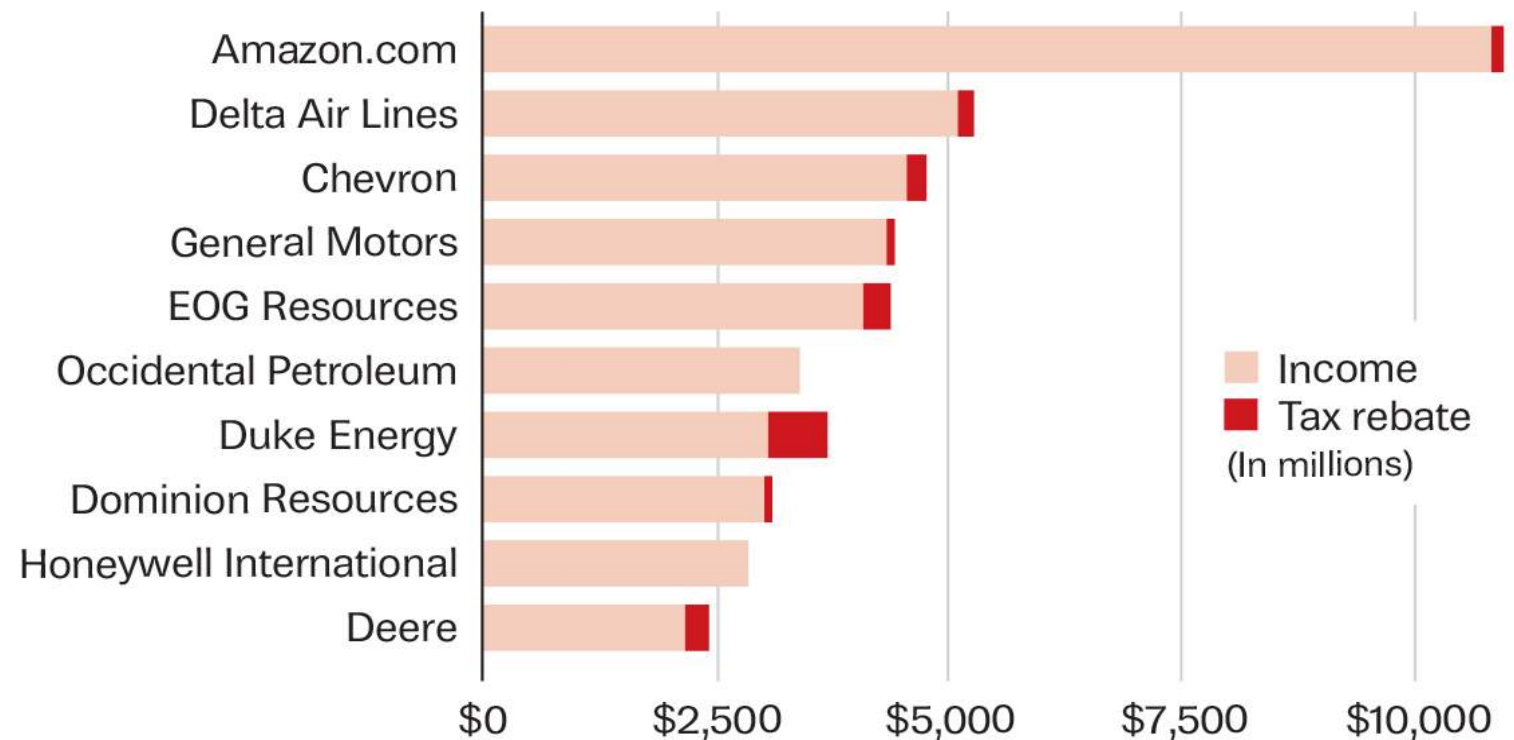


Tax Reduction Strategies For 2020



They paid no federal taxes in 2018

These are the 10 most profitable companies that paid no federal income taxes. Some received tax rebates. Amazon reported almost \$11 billion in income and claimed a tax rebate of \$129 million.



Source: Institute on Taxation and Economic Policy analysis of SEC filings

Times



Advisors & Roles

Bookkeeper: Enters & reviews all data to make sure your books are balanced and ready for taxes.

Tax Preparer: Takes reviewed data from bookkeeper and client to prepare tax returns

Missing Advisor: One that helps in proactively minimizing your tax liabilities.



Ideal Time To Do Tax Planning

2nd & 4th Quarter

Business Strategies

1. Review Financials:

You should be meeting with your accountant/ tax preparer at least 2 times per year. These meetings should involve projected revenues and ideas on how to manage taxes that may result from more or less revenues.

2. Income Deferral:

If you expect to be in the same or lower tax bracket in 2020, it may be beneficial to employ the technique of deferring taxable income until next year. For example, if you own a business and use the cash method of accounting, you can wait until the end of the year to send out invoices to ensure you won't receive payments until 2020.



3. Large Purchases: 179, bonus depreciation:

- Elect to write off the entire cost of qualifying property rather than recovering it through depreciation.
- The maximum amount that can be expensed for 2020 is \$1.02 million.
- Above and beyond the Section 179 deduction, you can claim first-year bonus depreciation.

The 2017 tax law established a 100 percent first-year deduction for qualified property acquired and placed in service after September 27, 2017, and before January 1, 2023 (January 1, 2024, for certain property with longer production periods). Unlike under prior law, this provision applies to new and used property.



4. Retirement Planning Strategies:

Look into options such as a SEP, SIMPLE, 401(k), Safe Harbor Plan, Pension Plan. Based on your revenues and needs you may be able to defer \$56,000 or more. Credits are also available to offset the cost of creating the plan.

5. Entity Selection:

Your business entity will play a major part in your tax situation. For example, the income tax on corporations has fallen from 35% 21%.

Whether you're forming a new business or not, it's always good to sit with your tax preparer to discuss whether your current entity is the most optimal for tax purposes.



7. 199 Maximization (20%):

Depending on your entity business owners may deduct up to 20 percent of their qualified business income (the QBI deduction) from sole proprietorships and pass-through entities such as partnerships, LLCs, S corporations & Sole Props.

Your accountant/ tax preparer should be discussing how to make you qualify for this strategy.



199 for Real Estate Activities (20%):

- You keep separate books and records for the activity;
- Perform 250 or more hours of rental services per year;
- and maintain reports, logs or similar documents that show the hours of all services performed, a description of all services performed, the dates on which the services were performed and who performed the services.

If you don't meet these requirements, speak with your tax preparer.



8. Charitable Gifts:

Charitable gifting may be limited unless you use a Donor Advised Fund (D.A.F). This allows you to bunch donations and get the tax benefit for the current year, is normally used when income is projected to be higher. Can also use stocks as an effective method.

9. Set Up an HSA:

Under an HSA, you can make a tax deductible contribution up to [\\$3,500 for a single person, or up to \\$7,000 for a family for 2019](#). There's also a catch-up contribution of \$1,000 if you're 55 or older.

The advantage with an HSA is that you can make the tax-deductible contribution without needing to itemize your deductions.



10. Capital gains offset with losses:

Capital losses can be used to offset capital gain and income by up to \$3,000 per year.

- You can use losses only after you have offset any capital gains you may have.

For example, let's say you sell some shares and realize a gain of \$5,000. You also unload some stock that hasn't been performing well, and you realize a loss of \$10,000.

1st step : \$10,000 loss - \$5,000 gain

2nd step: take \$3,000 of the remaining \$5,000 in losses and reduce your taxable income.

3rd step: \$42,000 (taxable income) - \$3,000 (capital loss) = \$39,000 (new taxable income)

4th step: carry forward remaining \$2,000 (capital loss)

Long Term Strategies

1. Roth Accounts
2. Roth Conversions
3. Non Qualified Accounts
4. H.S.As
5. Entity Separation: Real Estate
6. Q.O.Fs/ Q.O.Zs

Example

YOU INVESTED
\$2 MM
IN 2015 IN
ACME INC.

SOLD STOCK IN
2018
FOR \$3 MM

THEN YOU INVEST THE
\$1 MM GAIN
IN A QUALIFIED
OPPORTUNITY
ZONE FUND (“FUND”).

LEAVING YOU THE
REMAINING \$2 MM
OF PROCEEDS
TO USE AS YOU LIKE

Tax Benefits for Deferred Gain

2018

defer paying \$200,000 tax on gain (i.e., 20% tax on \$1 MM gain)

2023

\$20,000 of tax forgiven (5-yr holding period for 10% tax reduction)

2025

\$10,000 of tax forgiven (7-yr holding for 5% more reduction)

2026

regardless of holding period: must pay \$170,000 of tax (i.e., \$200,000 less \$30,000) so 17% tax rate on \$1 MM gain from 2018

Tax Benefits for OZ Investment

2018

\$1 MM investment in QOF with zero outside tax basis

2023

\$20,000 outside tax basis increase

2025

\$10,000 outside tax basis increase

2028 to 2047

Outside tax basis in the Fund increases to fair market value of Fund interest (i.e., can sell Fund interest with no tax) at the time of sale of the interest; provided, met 10-yr holding period & before end of 2047

What to look for in accountant/ tax office

1. Ask for referrals
2. Understands the work you do/field your in
3. Meets your needs/what services you may need
4. Does tax planning for following year
5. Can meet more than once per year
6. Has a team of others to call on if needed
7. Bookkeeper in office

| QUESTIONS?