Thank you for downloading our Ten Tax Tactics. If you want to save taxes, this is what you are looking for, though it just begins to scratch the surface. Our Advanced Tax Tactics (http://www.legalees.com/advancedtaxtactics/) expands on this with a step-by-step explanatory video and workbook. Their case studies and examples help you apply these strategies and more.

TEN TAX TACTICS

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1) Lower Your Adjusted Gross Income Instead of Just Getting Deductions

Adjusted gross income is the magic income tax number that determines what tax bracket you will be in, what you get in child credits, how much alternative minimum tax you pay and dozens of other things. Adjusted gross income (AGI) is a big deal when you are talking taxes.

Many of the deductions you get don't affect your adjusted gross income. For example, your home mortgage deductions and charitable contributions don't have any affect on your adjusted gross income. You need to think, "How can I do things that will actually drop my adjusted gross income?"

The easiest thing you can do to drop your adjusted gross income is create a little company. It can be a sole proprietorship, partnership, LLC or corporation. Today, the LLC is probably your best bet, because it can be taxed as a sole proprietorship (disregarded entity) and still give you asset protection and all the good tax advantages. In *LLC Wizard*, I show you how to set up an LLC and get all the neat tax benefits that lower your adjusted gross income which means more spending cash.

It doesn't matter what you do to make money in your company. I have a friend that sells baseball caps on the internet. He just buys them wholesale and resells them. He makes good money, but more importantly, he can affect his adjusted gross income.

All of his computers, travel to baseball games, tickets to the games, mileage, stationery, pencils, etc., suddenly not only become tax deductible, they are deductions that affect his adjusted gross income.

You don't have to make a lot of money in your business, just have a business. You can even lose money buying the computers, etc. It's all deductions that will affect your adjusted gross income. You need the computer anyway. Why not justify it as an expense that will not only drop your income taxes but actually lower your adjusted gross income?

Couple your little business with tax loopholes I train you on and you can really make a dent in your adjusted gross income.

2) Pay Distributions Out of Your S Corporation

You can save an average of about 10% in taxes on S corporation distributions you pay yourself out of your S corporation as a dividend rather than a wage. This 10% comes because you don't have to pay Social Security, FICA, FUTA, or unemployment on the S corporation distributions. The tax tip is you save all of the "social taxes."

You do have to pay yourself a reasonable salary before you pay any dividends. (Actually, in an S corporation you pay out distributions not dividends.) There isn't any double tax on S corporation distributions like there are on dividends paid out from a C corporation. Do you want to save this 10%, but don't have a company? If your S corporation (or LLC taxed as an S corporation) makes $160,000 this year and you pay yourself a reasonable salary of $80,000, then that leaves $80,000 you can pay out as an S corporation distribution. You will pocket about $7,000 - $10,000 extra without anymore work. That's not a bad tax tip!

You do have to write the operating agreement for your LLC or your bylaws for your S corporation so that they allow the distributions and you get the best tax benefits. You'll need a little extra training or CPA help. If you already have your operating agreement or bylaws, you can go back and amend them to get the best tax savings. If you want an in depth look at how to write an operating agreement, you can look at my operating agreement template with audio explanation and compare it to yours.

3) Independent Contractor Status and Independent Contractor Taxes

Never hire an employee if you can get the guy as an independent contractor. The guy has to meet all of the thirty plus criteria the IRS lays down as the independent contractor test. It doesn't take me long to go through all the fine points with you. It'll be easy for you.

Once you establish that the guy is an independent contractor, you have won the game. He is liable for any accidents or problems. He pays all the independent contractor taxes. You don't withhold taxes, or anything. That saves you paying the employer's portion of the employment taxes. Honing your understanding of the independent contractor rules and regulations is one of the best tax tips you can get, and it is also one of the most important asset protection tips you can get.

There are a lot of hoops you have to pass through to pass the independent contractor test. For example the independent contractor has to use his own equipment, work on his own time schedule, have other clients (employers), and the list goes on and on. In order to win the game, the independent contractor doesn't have to meet every one of the tests. It is a weighted test. Does the independent contractor meet enough of the tests to convince the IRS that he is actually an independent contractor? It's your job to cover your tail and make sure he does.

One of the big issues is a written independent contractor form or agreement. No independent contractor form, no independent contractor status. That's pretty much true no matter how many of the independent contractor test criteria are met. I'm happy to give you a free independent contractor form.

4) Trade Real Estate Using 1031 and Save Taxes

Selling real estate; why pay any income tax? Section 1031 of the IRS Code lets you trade your real estate and not have to pay any income tax on the "profit" you make. It works like this: first you sell one piece of real estate at a profit and then you get another piece of similar real estate. You are postponing the tax until you actually sell the property you own. Sophisticated real estate investors understand the 1031 in its traditional form, but there are other angles that make it really great.

Many investors don't want to just trade real estate. A real estate trade to a similar property just brings the same headaches they had before. You know... tenants, toilets, etc. Lots of folks want out of the real estate trade cycle. How do you do that with a 1031?

Two easy ways are to use the 1031 and do the trade or "exchange" into real estate of a different form. You have to do a "like kind exchange." One of the popular like kind exchanges is to trade your single family rental for a skyscraper rental. There deals are called "tenants in common" or "TICs" now where you actually become an owner of a billion dollar piece of real estate.

The TICs are very different than the old "Real Estate Investment Trust" or REIT. There you didn't actually own a piece of the property. With the TIC, you actually own the property, so you can do a 1031 exchange. If you know how to evaluate the TICs, you can get some that are returning great cash flow, even in today's market. The accountant in my office spends a lot of time evaluating TICs.

Did you know that there are oil and gas investments that qualify as "real property"? You can trade real estate and end up with an oil and gas investment that is very "safe" and certainly protects you from inflation.

Whether you do a 1031 real estate trade and get a TIC or an oil and gas deal, your "real estate trade" got you out of the headaches of owning real estate and yet you kept all of the advantages. A real estate trade with 1031 can cut the headaches of real estate ownership and you don't have to pay any income tax when you actually trade real estate this way.

I've prepared a 60 minute audio CD on 1031's that explains this procedure in detail.

5) Travel Per Diem

When you travel, you can use the government per diem rate. It works well for meal deductions and hotel deductions. Your travel deduction will be based on what the government allows.

Several years ago I was audited and I had every receipt from every McDonalds and hotel in nice envelopes. I could prove anything, and did prove it. The auditor finally said, "Why don't you use the federal government per diem, and you won't have to keep any receipts?"

Technically, you don't need receipts if you take the per diem. However, you need to keep the hotel receipts. You should also keep the meal receipts where you are taking someone else out to eat. The funny thing is, those government boys eat a ton more than you probably do. You can actually make money on the per diem deal. Of course, the per diem amount is a deduction to your business, and you don't have to recognize any "overage" as income.

The deduction will come out of your company, so it will lower your adjusted gross income, which means it is a great deduction for your taxes and a great bonus to your pocket book personally.

You can Google the government per diem chart to see this year's info.

6) Tax Free Income

This is a cute way to get more money to spend. You can drop the "profit" in your company by $10,000 a year and convert it into tax free money in your pocket. The code says if you rent your residence for no more than 14 days a year, any income you get is tax free. You don't report it.

The problem is you don't want to rent your house to some idiot for two weeks while you are on vacation. Here's where your little company comes in. Your company can rent your house if it is for a good use and at a reasonable rate. There are lots of tricks to justify the rental of your house. Movie stars routinely make an extra $100,000 or more a year using this loophole. For all the details, you can get full tax training course.

7) Developmental Drilling

One way that you can really save taxes and make a dent in a big income tax bill is by investing in development drilling projects. In this type of project, the oil and gas reserve has been discovered and is now being developed by sinking additional wells. You can invest in the drilling these wells and make a good profit in addition to saving taxes big time.

Your risk is minimal. The wells are bundled into groups, and you actually buy a tiny percentage ownership in each of the 100 or more wells that are bundled. The wells aren't in the same oil fields, so your risk is additionally spread. About 95% of the wells produce after they are drilled.

You can save taxes, because you get the drilling credits, energy credits, and a bunch of other tax breaks. The bottom line is you get to cut your adjusted gross income by about 85% of what you invest. If you invest $100,000, your adjusted gross income will drop by about $85,000. No, you don't have your money any more, but Uncle Sam doesn't have it either, and your money gives you a great return. It is a great inflation sensitive investment.

The minimum investment in these types of projects is $50,000. If you are interested in learning more, give me a call at 801-802-9020. No, I am not licensed to sell the deals, but I have some strong opinions on what the deals need to include, and it depends mostly upon what you are looking for.

8) Inherited IRA

One of the most important tax tips and financial concepts that you can learn and teach your children is that of stretching an IRA or the "inherited" IRA. IRAs are magic, because the growth in the IRAs is tax advantaged, if not tax free, as in the Roth IRA.

What most folks don't realize is that they can get an inherited IRA and stretch it over their lifetime. There are lots of rules, but it is so important. Most kids get an inherited IRA when mom and dad die. They take the money out of the IRA and blow it on a vacation to Hawaii, or some toy. STUPID!

An inherited IRA is the most important monetary asset in the estate, because it will continue to grow in the tax favored environment for the kids' lifetimes. When you receive an inherited IRA, you need to make very careful considerations before you take any money out. If you can leave it in the inherited IRA, it will produce up to 10 or 15 times more money for you over your lifetime, as compared to taking the money out of the IRA and investing it.

The tax advantage growth of the inherited IRA working over the recipient's lifetime is HUGE! Learn how to stretch any inherited IRA you get your hands on. It will be the most important financial move you make.

9) HSA and HRA

The questions are "What is HSA?" and "What is HRA?" These are two of the neatest gifts the IRS has ever given us. Let's answer the two questions.

What is HSA? HSA is Health Savings Account. It is a relatively new type of benefit plan under the Employee Retirement Income Security Act (ERISA). It is a benefit plan, not a retirement plan. More people can answer the “What is HSA?” question than they can the “What is HRA?” question, because the HSA requires a qualified trustee of the money put into the plan.

Because a qualified trustee is required, the insurance companies want to get into the act. They set up HSA plans for employers so the employers can pay for health insurance and pay for their employees' medical related costs.

What is HRA? HRA is Health Reimbursement Arrangement. It is also a relatively new type of benefit plan under ERISA. It allows a company to set up a bank account, move money into the account and take a tax deduction for it, then use the money in the account to reimburse employees for health related expenses they have paid out.

HRA plans are not as popular as HSA plans, because the insurance companies and other financial entities don't "push" them. The HRA doesn't require an independent party to handle the funds. All the company needs to do is adopt all of the plan documents and then set up a checking account. It's that easy.

The HSA has limits on what you can fund into the plan each year (about $6,000 for a couple). The HRA doesn't have any set limits on what can be contributed. The contributions need to be "reasonable." The HRA is very powerful and a lot easier to operate than the HSA. You don't need to deal with any insurance company or financial trustee type entity.

You can set up your own HRA plan. Just fill out the papers, open a bank account, deposit money and reimburse. Oh, by the way, there isn't any use it or lose it rule.

10) Pay Your Children or Grandchildren

Paying children out of your company is a good way to move money into your family possibly without the social taxes (Social Security, FICA, FUTA), or at least with a reduced income tax. The issue is how to pay your children so they can show the IRS they are receiving pay, not just a gift.

Obviously, you can pay children to do the janitorial work, paper work, and routine office work. But, how do you pay children who are younger? How about paying them a royalty to be on the internet advertising pictures, etc.? Modeling isn't cheap these days.

If you are paying a royalty, there is no need to pay Social Security and all that stuff. In fact, if you are paying children out of a sole proprietorship (LLC taxed as a sole proprietorship also), you don't have to pay the Social Security and all the other "social taxes." Paying children out of your company lowers your adjusted gross income!!

For more information on structuring your business to lower taxes, please call us at 800-806-1998 or visit http://www.llcwizard.com.