

THE ARIZONA REPUBLIC

Major Tax Planning Strategies

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As taxpayers rush to file their tax returns by 4/15/09, they are focused on tax preparation issues instead of tax planning. Warren Buffet has always said that he should not pay a lower tax rate than that of his secretary. However, he does through major tax planning. This article will focus on major strategies that can significantly increase family wealth.

1. Own a side business in addition to your job.

In 1980, I started offering a one-day seminar on how a side business allows one to deduct car, food, travel, entertainment, electronic equipment, and even the cost of one's children. The average tax savings, based on surveys of thousands of attendees, was \$5,000/year. If one were to invest this tax savings at 5% per year for 20 years, family wealth would increase by \$165,329, in addition to any income earned.

2. Invest in real estate for the long run.

With real estate prices having fallen by 40-60% from their peak in 2005-2006, savvy investors are starting to buy because they can finally get a positive cash flow. Real estate is not for the faint of heart, but given that many have lost half their money in the stock market during the last 1.5 years, they want to invest in an asset that's tangible and won't disappear due to Wall Street fraud. If one acquires \$859,375 of rental property, the depreciation will be \$25,000 per year. This is a paper loss and not a cash loss as the IRS allows you to deduct the theoretical wasting away of the house, even if the value

goes up. If one is in a 30% tax bracket, this saves \$7,500/year in taxes. If invested at 5% per year for 20 years, this adds \$247,994 to family wealth.

3. Make your child a millionaire.

Pay your child \$3,000/year from age 7 to 17 for legitimate work done for your side business and you get a tax deduction. He will owe \$0 income tax each year and no payroll taxes are owed by your unincorporated side business. Each year your child contributes the \$3,000/year to a Roth IRA. If he earns 6%/year, he'll have \$47,609 by age 18. If there are no more contributions and he earns 6%/year, he'll have \$985,358 by age 70.

4. Use a self-directed IRA to invest in real estate.

Virtually all IRAs and 401(k)'s are tied to Wall Street and will not allow you to truly control your investments with alternatives. Now that real estate prices have dropped so much, investors are buying houses as low as \$50,000-75,000 for all cash and earning as much as a 7-10% net cash flow. This cash flow is either tax-deferred (traditional IRA) or tax-free (Roth IRA). However, you can only use IRA funds to buy real estate if you set up a truly self-directed IRA with one of the 5-7 major institutions that allow this. If you hold long-term, the property will be free and clear when the 15-30 year mortgage is finally paid off.

5. Use the Roth IRA to create tax-free income for life.

If one converts current funds that are in a traditional IRA or 401(k) to a Roth IRA, whatever income is poured into

the Roth IRA is taxable income. One must not withdraw funds until age 59.5 and wait at least 5 years after establishing one's first Roth IRA. All earnings from the establishment of the Roth IRA are then tax free for your life, your spouse's life, and potentially for the life of your kids. The analogy is simple for people who have visited a farm. Would you rather pay taxes once on the value of the seed, and then never pay annual tax on the value as it grows into bountiful orchards, vegetable gardens, livestock, and fields of crops for the rest of your life?

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