WIN MAKE GIVE

benkinney TRAINING

WEALTH SERIES

2.0

PART FIFTEEN

Advanced Tax Strategies

IMPORTANT

Nothing in this course constitutes investment advice, performance data or any recommendation that any security, portfolio of securities, investment product, transaction or investment strategy is suitable for any specific person.

We cannot assess anything about your personal circumstances, your finances, or your goals and objectives, all of which are unique to you, so any opinions or information contained on this course are just that – an opinion or information.

You should not use my advice to make financial decisions and I highly recommend you seek professional advice from someone who is authorized to provide investment advice.

Win Make Give Series

ADVANCED TAX STRATEGIES

"The tax law is set up to help you become more wealthy."

- Tom Wheelwright -

Part Fifteen - Advanced Tax Strategies

In the last lesson, we showed how to calculate your tax rate to estimate how much tax you'll pay each year. We also showed you how to reduce your taxes with strategies like putting your children on your business's payroll, investing in real estate, starting a business, and maxing out contributions to your retirement or HSA accounts.

In today's lesson, we dive into advanced tax strategies with my personal tax consultant, CPA and Rich Dad Advisor® Tom Wheelwright. He is one of the leading experts in the world on tax strategy, and I highly recommend his two books, "Tax-Free Wealth" and "The Win-Win Wealth Strategy."

Over the years, Tom has helped me understand that the amount of taxes we pay dramatically affects our ability to do good in the world, fund our retirement accounts, invest back into our businesses, and save for higher education costs for our children or grandchildren.

I'm excited to have him as a guest on the "Wealth Series 2.0" as I know what it's like to be in the losing money tax bracket and the higher-paying tax bracket. We all start somewhere, and the key to paying fewer taxes is education. Along with listening to this lesson (over and over) and reading Tom's books, please continue to learn more and hire a tax professional who can maximize your wealth with tax-reducing strategies.

Ben Kinney
Ben Kinney Companies Founder
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Advanced Tax Strategies - 7 Sectors The Government Wants You To Invest In

Like it or not, you are a partner with the government. However, you have a choice in what type of partner you are: silent or active. The average silent partner pays up to 20% or 30% in taxes each year. The active partner strategically reduces the taxes they pay significantly, and when you pay less tax, you have more money to build wealth and do more good in the world by supporting your favorite causes and charities. Active partners find tax-reducing opportunities in the 6,000+ page tax code and the seven key sectors the government incentivizes you to invest in:

- Business
- Technology / Research and Development
- Real Estate
- Energy
- Agriculture
- Insurance
- Retirement Savings

What key sectors do you want to learn more about building into your tax strategy?

If you chose to be an active partner with the government and reduce your taxes significantly, what would you do with that money?

Advanced Tax Strategies - Retirement Accounts

The primary benefit of putting money into a Traditional IRA or 401(k) is to get the tax deduction, and the second is to get the employer match (if applicable). Typically, these accounts have restrictions and rules, including contribution limits and taxable withdrawals.

So why would you invest in a Traditional IRA or 401(k) only to postpone your taxable income to your retirement years?

When you invest in these types of retirement plans, you earn an immediate tax deduction. Instead, you pay those taxes in retirement during withdrawals, when you're likely to be in a much lower tax bracket. Ultimately, the idea is to keep more of your money by deferring taxes until retirement.

Hear Tom Wheelwright discuss retirement strategies in more detail beginning at 10:48 in this episode.

How can you maximize your retirement contributions to earn tax deductions for this year, three years from now, and five years from now?

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

Advanced Tax Strategies - Donating Stocks

One of the benefits of owning stocks is that you always know the value of a stock at any point in time. Because of this, it is easy to capitalize on some of the rules the IRS has formed around stocks in your tax strategy.

Donating Stocks

When you buy a stock low and sell high, you owe capital gains on the difference. For example, if you buy Tesla stock at $400 a share, and it goes up to $2,000, when you decide to sell, you'd owe capital gains tax on $1,600 (the difference between the purchase price and the current market value of the stock).

If instead, you choose to do good and donate the stock to your favorite charity, you eliminate the capital gains tax, and get a $2,000 deduction. Why? Donations to certain charities earn tax-reducing benefits, making the donation a win-win for all.

Hear Tom Wheelwright discuss donation strategies in more detail beginning at 18:49 in this episode.

If this tax strategy interests you, ask your financial advisor about setting up a donor advised fund.

List three charitable organizations you would like to donate to while earning tax benefits.

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

Advanced Tax Strategies - Real Estate Tax Incentives

Tax Incentives for Homeowners

The government understands that homeownership stabilizes the economy and communities. Because of this, they offer two big deductions. The first is a **mortgage interest deduction**, allowing homeowners to deduct interest paid on the first $750,000 of mortgage debt or up to the first one million if the homeowner bought their home before December 16, 2017 (nerdwallet.com).

Mortgage interest 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

The second is a **property tax deduction**, allowing homeowners to deduct up to $10,000 ($5,000 if married filing separately) for property taxes, plus either state and local income taxes or sales taxes (investopedia.com).

Tax Incentives for Real Estate Investors

For real estate investors, the government provides even larger incentives: depreciation, accelerated depreciation, and 1031 exchange.

Tom explains that a **depreciation deduction** is simply the government's way of allowing investors to deduct a portion of the property as wear and tear. 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.

You may also hear this referred to as cost recovery, because depreciation allows the investor to recoup losses as the property ages. What's interesting about this strategy is that while the value of the property may go up, you still receive the depreciation deduction.

Hear Tom Wheelwright discuss real estate tax strategies in more detail beginning at 22:20 in this episode.

Advanced Tax Strategies - Real Estate Tax Incentives Continued

Bonus depreciation is a depreciation method where instead of taking the depreciation over 27.5 years, you depreciate a larger percentage in the first year. Because of a housing shortage in 2017, the government enacted a law that said investment properties purchased between 2017 to 2022 would be able to deduct 100% of the land and content improvements of that property within one year. In 2023, the bonus depreciation amount is 80% with 60% the following year, and so on, lowering each year.

Tom says bonus depreciation gives you leverage with more capital as you pay fewer taxes. With that tax money you would have given to the government, you can buy more properties and take more tax deductions.

Cost segregation breaks down the costs even further within four categories with dates dates set by the government.

- Land - Never wears out
- Building - Residential wears out in 27.5 years, commercial 39 years
- Landing improvements - Wears out over 15 years
- Contents of the building - Wears out between 5 and 7 years

Tom says that when you use this tax strategy, you can still achieve faster depreciation than if you took the general bonus depreciation deduction, which is 80% for 2023.

Hear Tom Wheelwright discuss bonus depreciation and cost segregation in more detail beginning at 32:04 in this episode.

Advanced Tax Strategies - 1031 Exchange

When a real estate investor sells a non-owner-occupied property, that transaction becomes a taxable event. However, if they intend to invest the proceeds of that sale into more real estate, they can defer the tax on that sold property using **Section 1031, also called a 1031 Exchange.** This defers tax on qualifying exchanges of like-kind real estate (real estate assets that are similar in nature), giving you leverage with the money you save.

The most important steps to a properly structured 1031 exchange are:

- Replacement real estate must be like-kind.
- Tax must be paid on any "boot," or a non-like-kind real estate transaction, in the year of the 1031 Exchange.
- 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 years.

Be sure to find a Realtor® that understands 1031 exchanges because there are specific rules and timelines that must be followed, or you will find yourself paying the taxes you were working to avoid.

Hear Tom Wheelwright discuss the 1031 exchange in more detail beginning at 36:01 in this episode.

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

Advanced Tax Strategies - 1031 Exchange Step-by-Step

1. Decide to Sell and do a 1031 exchange: Only some investment properties are worthy of a 1031 exchange

2. Hire a Real Estate Agent: List your property for sale with an agent that understands the 1031 exchange process, listing paperwork, and the journey you are about to embark on.

3. Start Looking for Replacement Properties: The moment the property is sold, the 45-day countdown 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, make sure the paperwork discloses that a 1031 exchange is taking place on your end so they can cooperate.

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, one of the three properties you identified will stand out as a 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 typical transaction, deferring capital gains taxes into the future.

Pay Less Taxes - Tax Incentives for Businesses

Businesses provide the number one tax benefit because the government wants entrepreneurs to innovate and develop as well as create jobs for other taxpayers. We covered many business deductions in Part Fourteen. Tom mentions three lesser known incentives, the first being Section 1202.

Section 1202

Also called Small Business Stock Gains Exclusion, this incentive allows capital gains from select small business stock to be excluded from federal tax. Section 1202 of the IRS Code only applies to qualified small business stock (QSBS) acquired after Sept. 27, 2010, and held for more than five years (investopedia.com). Tom says if you set up your business properly, own it for five years, then when you sell it you can see $10 million of tax-free gains.

Hear Tom Wheelwright discuss business incentives in more detail beginning at 39:42 in this episode.

What two other business incentives are mentioned?

What business should we open this month to take advantage of tax benefits?

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

Advanced Tax Strategies - Energy

The government recognizes that we need more energy and have built incentives for fossil fuels and renewable energy.

Fossil Fuels

For example, you can invest $10,000 in an oil well. That first year, you'd get an $8,000 deduction, and in the second year, you'd get a $2,000 deduction. This deduction applies to any kind of income.

Renewables

A homeowner can put solar panels on their house, and the government will give them a 30% tax credit (dollar for dollar). For example, if you install $10,000 of solar panels on your house, you'd get $3,000 back from the government.

If you installed solar on your business or rental property, you get the 30% credit and a depreciation of 85%. For example, if you install $100,000 of solar panels on your business, you'd get a $30,000 credit, and an $85,000 deduction (worth another $35,000). In the end, the government is actually paying for two-thirds of the cost of the solar panels.

Hear Tom Wheelwright discuss business incentives in more detail beginning at 47:38 in this episode.

What energy strategy should we consider taking advantage of this year?

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

Advanced Tax Strategies - Reflection

What did Tom share in this lesson that stood out to you?

Which of the various advanced tax strategies discussed will you adopt into your wealth plan moving forward?

DISCUSSION QUESTIONS

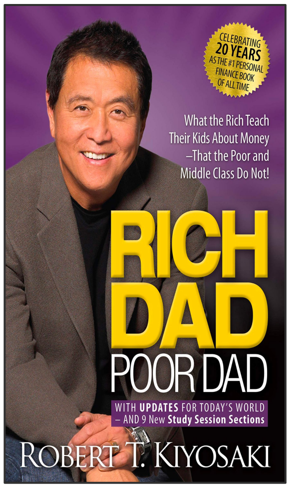
Which of these advanced tax strategies do we need to dive deeper into to reduce our taxes this year?

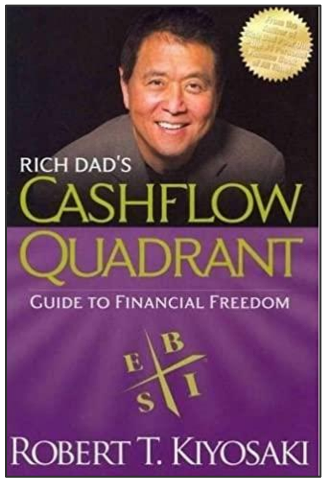
What savings and deductions are we missing out on by not owning investment real estate?

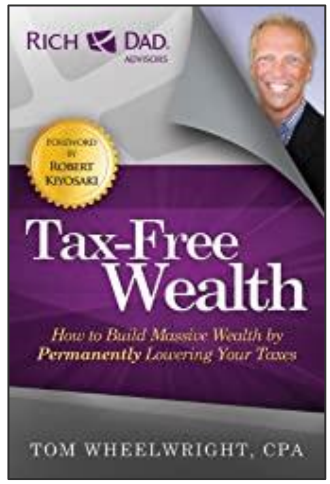
What energy incentives could we invest in this year to capitalize on tax deductions and credits?

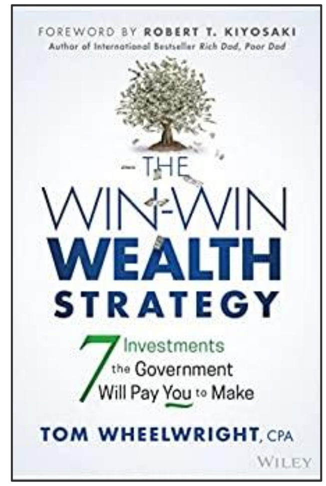
Are we working with the right tax advisor? If not, ask family and friends for references and list three candidates to interview as our future advisor.

Pay Less Taxes - Recommended Books









Rich Dad Poor Dad: What the Rich Teach Their Kids About Money That the Poor and Middle Class Do Not!

by Robert T. Kiyosaki

Cash Flow Quadrant

by Robert T. Kiyosaki

Tax-Free Wealth

by Tom Wheelwright

The Win-Win Wealth Strategy: 7 Investments the Government Will Pay You To Make

by Tom Wheelwright

ADVANCED TAX STRATEGIES

"I am proud to be paying taxes in the United States. The only thing is, I could be just as proud for half of the money."

- Arthur Godfrey -

Part Fifteen - Homework Question

"The more ________ you earn, the more ________ you pay, but the more ________ you build, the less ________ you pay." Tom Wheelwright

Save these answers and submit them in the questionnaire at the end of the course for a chance to win a $10,000 grand prize!

Preparation for Part Sixteen

- ☐ Review all of the lessons in the "Wealth Series 2.0."
- ☐ Be sure to have all the bonus questions answered so you are prepared to fill out the questionnaire that enters you to win cash prizes.
- ☐ If you haven't already, please join the discussion on the Win Make Give Facebook group. Post your thoughts, comments, and takeaways from the first six lessons.

Note: The hosts of the "Win Make Give" podcast are not recommending any strategies or advising you in any way. Please consult your tax advisor to see which strategies could be useful to your overall tax strategy.