



WV Tax Institute

Individual Tax Planning

Individual Tax Planning

Overview

- Knowledge based
- Options and solutions over answers
- Anticipate results and look for alternatives
 - S Corp owner is selling business assets for \$2 million
 - What's the after tax cost from the asset sale?
 - What do we need to know to answer the question?
 - What questions should have been asked?
- Ultimate goal is pay least tax possible while achieving real goals

Individual Tax Planning

Types of planning

- Tax Planning (savings) strategies
 - ▣ Gross Income Exclusion
 - ▣ “Free” deductions
 - ▣ Credits
 - ▣ Timing
 - Temporary
 - Permanent
 - ▣ Rate arbitrage
 - ▣ Structure
 - ▣ Elections

Individual Tax Planning

Exclusions

- Tax Exempt Bonds
 - Consider after tax investment return and risk
- Cancellation of Debt – may not be taxable
- Sale of Personal Residence
- Foreign earned income exclusion
- Life Insurance Proceeds
 - Transfer for Value?
 - Policy Loans?
- Charitable Giving – Appreciated Assets (LT)

Individual Tax Planning Exclusions

- Fringe Benefits
- §1202 Small Business Stock
- Social Security (partially based on AGI)
- Roth IRAs
- § 529 Plans (includes K-12)
- Extended rollover period for plan loans

Individual Tax Planning

“Free” Deductions

- No Cash Outlay
- §199 Domestic Production Activity Deduction
 - repealed after 2017
- §199A Qualified Business Income 20%
- Percentage Depletion
 - May not be limited to basis

Individual Tax Planning

Credits

- Child tax credit
- Research and Development Credit
- AMT Credit
- Foreign tax credit
- FMLA
- Work Opportunity Tax Credit

Individual Tax Planning

Timing

- Temporary differences
 - ▣ Timing of deductions or income
 - ▣ Traditionally accelerate deductions and defer income
 - Consider if it makes sense for taxpayer
 - May consider multiple years, time value of money, family

Individual Tax Planning

Timing

- Value of Deduction
 - ▣ Income year 1 \$212,000
 - ▣ Income year 2 \$212,000
 - ▣ December 31 – buys Equipment x 2 @ \$100k

Year	#1	#2
Income	212,000	212,000
Standard Deduction	(12,000)	(12,000)
Bonus Depreciation	(200,000)	(0)
Taxable Income	0	<u>200,000</u>
Tax	0	36,579

Individual Tax Planning

Timing

- Value of Deduction
 - ▣ Income year 1 \$212,000
 - ▣ Income year 2 \$212,000
 - ▣ Buys Equipment 12/31/X1 @ \$100k 1/1/X2 @ 100k

Year	#1	#2
Income	212,000	212,000
Standard Deduction	(12,000)	(12,000)
Bonus Depreciation	(100,000)	(100,000)
Taxable Income	<u>100,000</u>	<u>100,000</u>
Tax	13,879	13,879

Individual Tax Planning

Timing

- Value of Deduction
 - ▣ Scenario #1 Two years of Tax \$36,579
 - ▣ Scenario #2 Two years of Tax \$27,758
 - ▣ Savings \$8,821
- Would my savings be different if the income was subject to Self Employment or not?

Individual Tax Planning

Timing

- Value of Deduction
 - ▣ Was the equipment needed?
 - ▣ Scenario #3 No Equip - Two years of Tax \$73,158
 - ▣ Equipment Cash left Scenario 1 & 2 = \$0
Equipment Cash left Scenario 3 = \$126,842
- \$1 deduction is worth less than \$1
 - ▣ Just offsets cost of necessary expenditures

Individual Tax Planning

Timing

- Temporary differences
 - ▣ Depreciation methods, Bonus, §179
 - ▣ Traditional Retirement plans
 - ▣ Net Operating Losses
 - ▣ Loss limitations –
 - Basis
 - At-Risk
 - Passive
 - Excess Business Loss

Individual Tax Planning

Timing

- Temporary differences
 - ▣ Depreciation Recapture
 - ▣ Intangible Drilling Costs
 - ▣ R&D
 - ▣ Change of Accounting Method
 - Accrual to Cash
 - ▣ Charitable giving (CRTs, CLTs)

Individual Tax Planning

Timing

- Permanent differences
 - Phase-outs – more of a rate modifier
 - AMT – excess regular deductions lost
 - Alimony – after 2018 no deduction or income
 - Moving expenses
 - Unsubstantiated Charitable Contributions
 - §83(b) election risk
 - Roth recharacterization no longer available

Individual Tax Planning

Timing

- Permanent differences
 - ▣ Itemized deductions vs standard deductions
 - ▣ College athletic seating rights – no charitable deduction
 - ▣ Meals and Entertainment limits
 - ▣ Home Mortgage and HELOC
 - ▣ State Taxes – 10k limit

Individual Tax Planning

Rate Arbitrage

- Ordinary income vs LT Capital Gains
 - ▣ Lease bonus payments
 - ▣ Personal Goodwill
 - ▣ Asset Allocations
 - ▣ Stock sale vs asset sale
 - ▣ Real Estate depreciation (ordinary depr vs 25% recap)
 - ▣ §831(b) Captives
 - ▣ IC-DISC

Individual Tax Planning

Rate Arbitrage

- §1411 Net Investment Income Surtax– 3.8%
 - ▣ Active Trade or Business but no SE?
 - Gain on disposition
 - ▣ Self Rental
- Timing of income for lower rates

Individual Tax Planning Structure

- Self Employment Tax
 - ▣ Management Company
 - ▣ Limited partner exception
 - ▣ Reasonable Compensation
- Entity Choice (Tax, liability, flexibility)
 - ▣ C Corp
 - ▣ S Corp
 - ▣ Partnership
 - ▣ Sole Proprietor/Single Member LLC

Individual Tax Planning Structure

- Grouping Elections
 - ▣ Passive activities and participation
- Self Rental
- Separate Returns
 - ▣ Especially with TCJA changes

Individual Tax Planning Elections

- §83(b)
- §614
- §454 Election on Final 1040

Individual Tax Planning

Transfer Tax

- \$11,490,000 lifetime exemption
- 40% rate
- \$15,000 annual exclusion
- Tools to mitigate or avoid tax
- Examine plan to maximize overall tax savings
 - estate and income tax
- Don't forget GST consequences

QUESTIONS?

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