

What is tax saving?

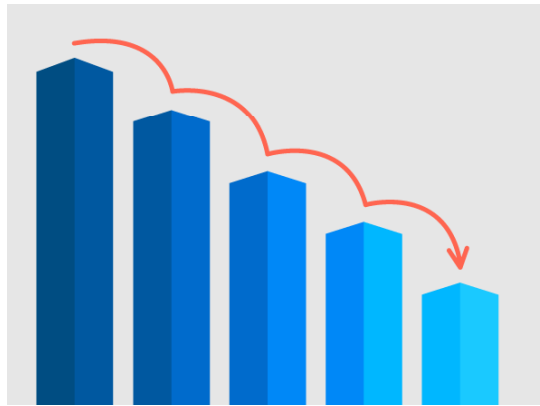


Agenda

- I. Reduce Your Taxable Income
- II. Maximize Your Deduction
- III. Deferred Your Income
- IV. Review Your Structure



I. Reduce Your Taxable Income



1. Understanding Income

Understanding Income

- Earned Income: Income from Jobs such as Wages, Business income etc.
- Unearned Income: Income from property or investments such as interest income capital gain etc.

2. Earned Income - Business Income

- **Example 1**

A has the earned income of \$500,000 from his business in 2018.

Tax liability?



3. Tax Calculation

Tax	Tax Rate	Tax Liability
Income Tax	50.3%(Fed37%,State 13.3%)	\$ 251,500
Social Security Tax	15.3% (Up to \$128,400)	\$ 19,645
Medicare Tax	0.9%(excess of \$200,000)	\$ 2,700
Total		\$ 273,845

4. Magic of Main Home

- **Example 2** –Sold Main Home

B has \$500,000 of income from the sale of main home in 2018.

There is “No Tax” liability.



5. Capital Gain

Example 3 – Long Term Capital Gain

- C has the long term capital gain of \$500,000 from his stocks (or investments)
- Maximum capital gain tax rate is 20% for federal and 13.3% for State.
- Total taxable rate is 33.3%.
- Tax liability is \$166,500
- **The difference is \$107,345.**

6. Income Splitting

Income Splitting

: Several taxpayers with lower tax brackets pay less tax on the same income as that of one taxpayer with a high tax bracket.



For example – Income Splitting

Mr. Kim has \$100,000 of rental income that is taxed at:

- Federal ---- 37% (2018)
- State ---- 13.3 %

If they transfer the property to their 3 children.

- Tax on \$100,000 at Mr. Kim's bracket : \$50,300
- Tax on \$33,000 at children's tax bracket: \$6,879
- Number of children : 3
- Total Federal and State tax for children : \$20,637

Tax Savings : \$29,663

7. Non-Taxable Income

Understanding Non-Taxable Income

- Main home exclusion
 - Single: up to \$250,000
 - Married: up to \$500,000
- Child Support
- Social Security Benefit
- Welfare
- Distribution from Roth IRA



7. Non-Taxable Income - Continued

- IRA and Pension Rollovers
- Life Insurance Proceeds
- Inheritance
- Gift received
- Interest income from exempted bonds
- Worker's compensation
- Disability payments if you paid the premiums
- Personal Injuries payments

7. Non-Taxable Income - Continued

- Health and Accident Benefits
- Federal Income Tax Refunds
- Most scholarships and fellowships



II. Deferred Income



II. Deferred Income



1. Installment & Retirement

Installment Sales

- Consider installment sales if you are expecting to sell business or property and you have too much income for this year.

Retirement Plan

- To be relax after retirement and to defer your current tax, contribute your retirement plan such as IRA, 401(k), SEP, Simple Plans etc.

2. Like-Kind Exchange

1031 Exchange (Like Kind Exchange)

- Property held for use in a trade or business or held for investment.
- Look to property itself.
- Real Estate for Real Estate is OK.
- Real Estate in USA and Real Estate in outside of USA is not OK.

III. Maximize Your Deduction



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1. Rent or Buy Home

Rent or Buy Home?

- Rent - may be less payment but “No Deduction”
 - hard to claim Itemized Deduction
- Home - Start to deduct

Itemized Deduction: Mortgage Interest, Property Tax etc.

- Appreciation ? : Your asset is growing.
- Take a benefit of main home exclusion

2. Employee or Owner

Stay as employee or open your own business?

- Employee
 - less risk but no deduction
- Own business
 - can claim many deductions, such as Depreciation, Automobile expenses, Telephone expenses, Entertainment, Travel expenses etc.
 - There are many tax saving strategies for business.



3. Investment - Real Estate

Own real estate?



- Rental loss?
 - Don't worry, you can write off up to \$25,000 with your ordinary income.
 - Are you real estate professional?
 - If yes, you can write off 100% of loss with other income.

3. Investment - Real Estate - Continued

- Don't forget "depreciation"
 - take a benefit of depreciation
- Too much gain?
 - There is several good solutions.
 - One of them is 1031 exchange.
 - You don't have to pay any tax for gain from the appreciation of your rental property, if you do 1031 exchange.

IV. Structure



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1. Entity Set Up

Set up separate entity

- Family Limited Partnership
- Limited Liability Company
- Corporation
 - S Corporation
 - C Corporation
- Trust
- Non – Profit Organization

