10 LEGAL WAYS TO NOT PAY TAXES

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For every real estate professional, income is king. After all, isn't that why you are in the game? As April 15th looms on the next page of the calendar, taxes are on the minds of many of us.

As the tax deadline approaches, adjusted gross income — line 37 on your form 1040 — is a key driver in a number of penalties, surtaxes, and phase-outs of benefits.

Most real estate agents and brokers generate their income through commissions from their sales transactions. As a result, Tax Day is particularly important. Saving receipts and deducting business expenses are always key points to address.

As a real estate agent or broker, you usually must invest money before you make money. Normally you have to market a property before you can sell it, promote yourself to attract homebuyers and sellers, and drive around town quite a bit before you see the fruits of your labor in the form of a commission check.

Throughout the year, it is important to track every deduction. Keep records and files of all expenses. Often, it is wise to maintain a separate business checking account.

When it comes time to pay taxes, nobody wants to open their wallets to Uncle Sam. However, there are ways to keep more of the money you worked all year to earn.

In a recent report, Forbes details ten ways that you can "hide" cash from the Internal Revenue Service.

In 2017, taxpayers will see an increase in Medicare premiums that will cost a couple up to $8,899. Some states, like New York, kick up property taxes for people with high AGIs. The tax code is littered with assaults on adjusted gross income, and inducements such as education or adoption credit or tax-deferred IRA will be dangled then snatched away if your adjusted gross income is too high.

As you do your taxes and you start to see red, you undoubtedly will start to look for ways to reduce your adjusted gross income and cut your tax.

Here is how you can do it:

1. **Maximize retirement.**

Every American can contribute up to $18,000 to a 401(k) and if you are over 50, that figure rises to $24,000. This reduces your AGI. By allocating pre-tax dollars from your wages to your retirement plan, you not only reduce the total amount you pay in income taxes, but also jump-start your portfolio by putting all of your savings to work immediately.

The tradeoff is that 401(k)s are inflexible, and you have to pay a steep penalty if you withdraw the cash before you reach age 59½.

If neither you nor your spouse has a retirement plan in a current job, you still can deduct $5,500 ($6,500 for those over 55) going into an IRA.

In the end, a retirement plan is the best tax advantage available to independent contractors. Contributing to a retirement plan can reduce your tax bill and build a nest egg. Save for retirement, accrue tax-deferred growth, and gain tax deductions — it's a win-win-win situation.

2. **Build an HSA.**

Health savings accounts, or HSAs, are tax-advantaged savings accounts meant to fund health expenses. But savers aren't optimizing their HSA to their benefit, according to Jean Chatzky, co-author of, "Age Proof: Living Longer Without Running Out of Money or Breaking a Hip."

For many real estate agents and brokers, a health savings account is a key part of your financial strategy. It also is triple-tax free, with a deduction, tax-free compounding, and tax-free withdrawals. If your family is covered by a high-deductible health insurance plan, you can deduct contributions of up to $6,750 ($1,000 more if you are 55-64).

Withdrawals are tax-free if used to cover medical costs. However, you have to stop contributing when you are receiving Medicare. But an HSA can compound indefinitely and be used later in life to reimburse you for medical expenses incurred years earlier.

Lisa Greene-Lewis, CPA and tax expert at TurboTax, points out that HSAs are great vehicles and offer the same benefits of a 401(k) but very few people have turned on that option to invest. For real estate professionals who may fund their own health care, it can be a great option, with the tax benefits being an added bonus.

"If you have a high deductible on your health plan, whether or not your employer makes a contribution, do your best to put some money in an HSA every year," Greene-Lewis said.

As a self-employed taxpayer, you also may be able to deduct health insurance premiums for you, your spouse and your dependents if you meet certain sets of criteria set by the IRS.

3. Duck refunds.

Overdoing your estimated state tax income taxes this year will get you a deduction for the outlay, but some or all of the refund will count on your AGI in 2018.

The amount will depend on the estimated tax you pay on Jan. 15, 2018, and other factors. As a real estate professional, if your tax bracket is unchanged, you could be worse off with an inflated AGI. However, if you have an inflated deduction one year followed by extra income the next year, you won't necessarily be complete. All things being equal, you will be worse off.

Along the same lines, real estate professionals are essentially self-employed. Self-employed individuals generally are required to pay taxes through quarterly tax payments due April 15, June 15, September 15, and January 15 of the following year.

It often is suggested that you have a separate business about, but you also should maintain a separate tax account, too. When accounts are intermingled, it is too easy to spend from it and come up short when quarterlies roll around.

To ensure you are up-to-date on your tax bills and to avoid issues that could alter your AGI during tax filing, set up quarterly estimated tax payments and make these payments on time. Late or inadequate payments mean you'll be assessed penalty and interest charges in addition to your income tax liability.

4. Donate from an IRA.

This year, the oldest U.S. baby boomers — born starting in mid-1946 — will start taking mandatory IRA and 401(k) withdrawals, also known as required minimum distributions (RMDs). This doesn't come without a catch. What does? These annual withdrawals are considered ordinary income, taxed at a rate as high as 39.6 percent, and the extra cash you take out can push you into a higher bracket.

"Those who are the biggest savers get hit the hardest because they saved the most," Ed Slott, who advises retirees and hosts a public-television show on saving and retirement vehicles, told the *Abilene Reporter-News*.

There are ways to minimize the tax bite. By law, you are required to start taking distributions from IRAs, 401(k)s and other kinds of tax-deferred accounts by April 1 of the year after you turn 70½. From then on, you have to take money out before Dec. 31 every year.

After you reach 70½, you can use distributions sent directly from your IRA to a charity to cover contributions you would otherwise have made in cash. However, the outlaw, which is capped at a maximum of $100,000 counts toward mandatory IRA withdrawals, but won't show up in AGI.

You won't be taxed on the RMD you've donated and the charity gets a nice chunk of money. However, you can't take the amount as a tax deduction, too

5. Take losses.

For real estate professionals with a cache of investments, it is generally a good idea to sell off lemons from your portfolio. An advantage of taxable accounts is the ability to use the losses that inevitably occur in some years to lower your tax bill.

Any taxpayer in any tax bracket may deduct stock market losses against his or her ordinary income. By doing this, losses can offset gains and then up to $3,000 of ordinary income; excess losses can be carried over.

6. Own index funds.

While some investors have pointed out that actively managed funds have outperformed index funds in recent years, there is still a lot to like about index funds, particularly for busy real estate professionals who may be in the early stages of their careers. They are a low-cost way to invest and you don't have to do much thinking to be successful.

In your taxable accounts, the Forbes report supports something like the Vanguard Total Stock Market ETF (VTI). Over the last decade, this fund, which has a lot of overlap with the S&P 500, has done a hair better than that Index. You also don't have to pay out of capital gains.

This is a better option than Growth Fund of America (AGTHX), which has tied VTI over the decade. But its active management churns up capital gains. If you owned $100,000 of it in December, you had $5,570 of needless taxable income thrown into your AGI. A key rule of thumb is that an exchange-traded fund will be more tax-efficient than a mutual fund owning the same stocks.

7. Wind down your career.

For real estate professionals, you can maximize the deduction for health insurance, above line 37, by doing a gentle wind-down of your career rather than a quick and complete closure.

The objective is to get the biggest above-line-37 deduction for health insurance that you can. You can write off premiums, including Medicare premiums, against self-employment income; you can't write them off against other-income.

Take as an example a self-employed real estate agent in your early 60s making $120,000 and planning to work one more year. And let's say health insurance for you and your spouse is running $16,000 a year. If you work one year full-time, you'll deduct $16,000. If you work three years at one-third time, you'll deduct $48,000. The math is simple!

8. Municipal Bonds

These days, chasing yields is out. Quality is in.

"In calm markets, give me the higher yields," Matthew Tuttle, chief executive of Tuttle Wealth Management LLC, in Stamford, Conn., told Banrate.com. "Now, stick with funds with higher-quality bonds."

Bonds billed as "tax exempt" aren't entirely tax exempt. The interest gets added to AGI in some of the AGI penalty formulas, such as the one boosting Medicare premiums. But even here, the municipal bonds help you. They create less gross income.

When comparing bonds, such as the Vanguard Intermediate Corporate Bond (VCIT) yielding 3.4 percent or a Vanguard Tax-Exempt Bond (VTEB) yielding 2.3 percent, when you put aside the somewhat higher credit quality of the munis, this is pretty close to a tie so far. Municipal bonds can reduce the impact on your AGI.

Under present law, VTEB keeps $34,000 out of the AGI figure used to determine how much income gets reduced by the 3.8% Obamacare tax. The new Congress may repeal the 3.8 percent tax, but it is likely to keep the Medicare premium penalty. In this instance, the VTEB is $11,000 better than VCIT.
If you held municipal bond ETFs or mutual funds, a portion of the dividends paid by municipal bond funds may be exempt from state and local tax. The applicable rules for exemption vary by state — consult your tax advisor.

9. Leverage rental property.

It is only natural for real estate professionals to also invest in real estate. If your balance sheet holds mortgage debt, whether it is on an apartment building you hold for investment or a home you live in, the interest is deductible.

As a result, it seemingly doesn't matter where the mortgage goes. However, investment property interest comes off at line 17 on your tax form and reduces your AGI. Home mortgage interest follows line 37 and doesn't offer any help with your AGI.

You may not be able to deduct the interest if you mortgage the apartment building after buying it, and you could have an issue if your mortgage interest puts your rental into the red.

10. Divorcing? Plan it out.

If you pay alimony not in a lump sum settlement, it moves AGI from one ex-spouse to another. The potential tax benefit should be part of the negotiation.

Alimony payments are typically tax deductible by the person making the payments, and you may feel entitled to some tax benefit as a result of supporting your estranged spouse. However, the IRS only allows the deduction if support payments were outlined in a written separation or divorce agreement.

Moreover, while the legal fees in a divorce are generally nondeductible, any lawyer fees that you incur while settling alimony are tax deductible.

You must itemize to get the deduction, and only those expenses that exceed two percent of your AGI are deductible. Be sure to ask your attorney to provide an itemized statement of fees so you can determine how much may qualify for a deduction.

***NOTE**: The content in this paper is not intended to provide tax, legal, accounting, financial, or professional advice, and readers are advised to seek out qualified professionals that provide advice on these issues for specific client circumstances.*