



2 Helpful Tax Strategies

If you're like most taxpayers, you have no clue about the most effective tax strategies for these financial vehicles - especially if you lack access to expensive accountants and attorneys. Here's some guidance.

Here are two common situations and innovative solutions that might help.

1. You are self-employed and want to save tax. You feel you pay too much in taxes and want at least \$17,500 of deductions. You are not an employee with a company that offers a 401(k) retirement plan but you still need more deductions than the \$5,500 annual contribution (\$6,500 if 50 or older) limit for a traditional individual retirement account.

Solution: a solo 401(k), aka an independent, one-participant or family 401(k). Using this vehicle in this case hinges on your being a sole proprietor or operator of the business with your spouse, and have no non-family employees.

Let's say your spouse works in the business with you and is younger than 50. He or she can contribute up to \$17,500 annually to the solo 401(k) plan, and this is called employee salary deferral of up to a full year's compensation. If your spouse earns \$17,500 this year (\$18,000 in 2015) he or she can put all of \$17,500 into the solo 401(k) plan.

Assume you are 50 or older and now also contribute a maximum \$23,000 (the maximum \$17,500 contribution for 2014 tax year plus the \$5,500 catch-up amount)

employee salary deferral to a solo 401(k) plan. With an eye to even further deductions, you can also kick in the employer contribution - remember, you are both the employee and the employer - of 20% of your net earnings if you are a sole proprietor and 25% if your business is a corporation.

If you are 50 or older by this Dec. 31, you can save up to \$57,500 in the solo 401(k), a combination of the employee salary deferral and the employer contribution. For 2015, the total maximum contribution increases to \$18,000 salary deferral plus \$6,000 catch-up plus \$35,000 employer contribution, or \$59,000 total.

Additional points:

You can still contribute to an IRA in addition to your solo 401(k) contribution.

Setting up a solo 401(k) can be inexpensive and easy. A reasonably priced independent 401(k) administrator can cost as little as \$500 for set up and \$500 in annual fees. Brokerage firms can offer lower costs but you then are tied to their investment choices.

If you have non-family employees and want to offer a workplace retirement plan, your normal 401(k) plan may come with potentially higher set-up and maintenance fees. You will also be subject to non-discrimination rules, meaning that you must allow your permanent employees into the plan and that your

employer profit contribution must treat all employees - including you the owner - equally.

2. You want to leave a tax-free legacy. In one excellent example, a retired nurse, married, 75, wants to leave a legacy to her 9-year-old twin grandsons. The most tax-effective strategy: Combine the Multi-Generational (MGIRA) strategy with a Roth IRA conversion.

The MGIRA, aka an extended or stretch IRA, allows you to designate a successor beneficiary to pass on funds you saved for retirement. Converting other kinds

of IRAs to a Roth IRA offers many advantages, including eventual tax-free withdrawals of qualified distributions.

We structured a Roth conversion of the nurse's \$385,000 traditional IRA and paid the conversion tax with non-IRA funds. The two grandsons will each get slightly more than \$2 million tax-free over their lifetimes in annual checks without ever raiding the principal.

Let's hope they raise a glass to the grandma who will still be looking after them.