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Meet the Trainer



Keep More Commissions with Tax Breaks

Lesson 4: Part 4

Hiring Children Continued

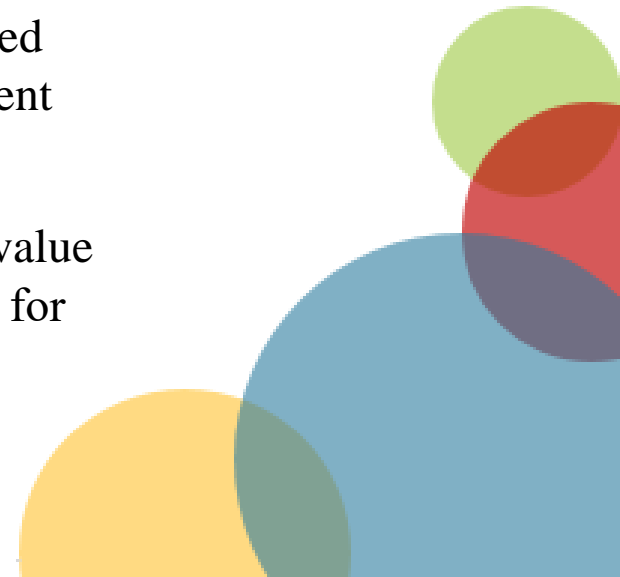


Strategy 12: Create Deductions by Gifting Property to Lower Tax Bracket Friends & Relatives Age 18+ & then leasing the Property Back for Business Use (highly used by doctors, movie stars, etc.)

Step 1: Gift the property. To put the gift/leaseback strategy to work, you must first own the property. As an individual, you may gift assets to your children or any other person. Your corporation may not.

Step 2: Gift the right property. Fully depreciated property produces maximum deductions for this strategy. By using fully depreciated assets, you actually create new deductions. Fully depreciated assets produce no depreciation deduction. However, the gift/leaseback technique creates a new rent reduction from the fully depreciated equipment.

Example: You own/use in your business a Chevy Caprice Classic (fully depreciated). Retail value of \$8,425. According to IRS's Official Annual Lease Value Table, annual rent should be \$2,600 for the next 4 years. You gift and transfer the car's title to a trust established for your 18-year-old daughter.



Result: You get a tax deduction for the \$2,600 rent you pay to the trust each year. Assuming you were in the 46.5% tax bracket for State & Federal purposes, your taxes are reduced by \$1,209. Your daughter received \$2,600 from the trust & paid a tax of \$196. Family unit (you & daughter) received a net tax benefit of \$1,013 from a car that otherwise would have produced no tax benefit.

Give away property you need to use today but don't want 5 years from now:

Give away personal property that's declining in value daily, such as cars, computers, photocopier, etc.

Who would be an eligible recipient of the leaseback? Anyone whom you would give money to anyway.

Minors: If you gift to a minor, you may have to use a trust to make things proper.

If you put property in a trust and that trust will return the property to you, you are taxed on the income of the trust. Therefore, it is important that an independent trustee be used for all trusts and income must not return to you.

Document fair values: Must have evidence to support fair market value & fair rental charges.

With autos use Blue Book for values, IRS tables for rental values. For other equipment (computers, chairs, etc.) contact commercial leasing companies. Have them prepare a formal document estimating values. Finally, make sure all terms of the lease are in writing.





Strategy 13: Lease Business Assets Purchased By Your Lower Bracketed Friends & Relatives Age 18+

You can gift money to your friends & relatives. It's now their money & they can use it as they please. They can buy cars, computers, etc., & set up a leasing business.

Strategy 14: Set Up a 529 Plan for Kids

You can set aside up to several hundred thousand dollars for each kid's education. The funds can be used for any relative, & the appreciation is tax free if used for college & graduate school tuition.

These funds can be used for any higher education expenses such as tuition, required fees, supplies & books, as well as reasonable costs for room & board if student is in residence for at least half-time. Now they can also be used to buy a computer & internet access for the student.

Finally, contribution to any prepaid tuition or Section 529 Plan qualifies for the annual gift tax yearly exclusion.



Strategy 15: Sell Assets To & Lease Assets Back From Lower Bracket Friends & Relatives Age 18+

This technique has been around for years and puts friend or relative in the leasing business, but allows you to select the asset.

Example: You sell your house at fair market value to your son using installment notes. Your son leases the house back to you at fair market rent.

Result: You & your son have almost even cash flow, but your son now has passive losses from the rental property.

Get a good lawyer: The techniques noted in strategies 10-14 must be done correctly. The lease should be for a short term & definitely not exceed the seller's life expectancy. The rent & sale price should be fair market value. All payments should be made to the appropriate parties. No forgiveness of any payment should occur, especially in the first 2 years.





Documents non-tax business reason: In addition, many courts require a non-tax reason for a sale-leaseback or gift-leaseback. A letter from a lawyer stating that this transaction is recommended for:

- Protection from creditors
- Avoidance of ethical conflicts
- Provisions of professional management
- Avoidance of problems with shareholders and/or business associates
- Avoidance of estate tax and probate

You should have a valid business purpose for each step in the transaction. In addition, the owner/lessor must acquire and retain “significant and genuine attributes” of a traditional owner including the benefits & burdens of ownership. See your lawyer or tax advisor about this.

