Tax Savings Tip Sheet

There are things you can do as either a wage-earner individual or a self-employed business-owner to save a lot of taxes. Read insider tips from experienced Ohio Tax Attorney, Joshua Sells.

Joshua Sells is a tax attorney and IRS taxpayer representative super freak. After a three-year stint as a global financial consultant, Josh started a multimillion-dollar ecommerce venture. Over the past 15+ years, Josh has transitioned into the legal field, focusing on the tax needs of individuals and small businesses. Josh has written tax self-help guides and provided IRS strategy for hundreds of clients.

He now specializes in serving as tax attorney to individuals and small businesses who find themselves chained down by the aggressive behaviors of the IRS. Josh's writings, seminars, and webinars have reached untold multitudes. Josh is the Senior Tax Attorney at J. M. Sells Law, an Ohio tax law firm based out of Cleveland. He is a husband, father, Christian, avid writer of tax, traveler, entrepreneur, and lover of coffee.

My Seven Tax Saving Tips

1 – Pay Your HSA & Health Insurance Through Your Paycheck

First off, if you are self-employed, you need to talk to me about forming an S-Corporation and putting yourself on payroll (this alone can save you $10,000 - $12,000 per year). You can then use this trick to save a ton of money.

Now, if you do get a paycheck, you need to make sure that you are paying your health insurance premiums through your paycheck. Additionally, make sure that if you have the option for an HSA (Health Savings Account), that you fund it through your paycheck. Assuming your employer has a Section 125 Cafeteria Plan (most of them do), then you will not only save federal income tax, but also payroll tax (i.e. social security and Medicare).

So, if you are in the 22% tax bracket and pay $10,000 per year through your paycheck for Health Insurance and HSA contributions, you would save almost $3,000 per year in taxes just for putting money in your HSA and paying for health insurance . . . that's like the government giving you a 30% off coupon!

2 – Fund Your Retirement Accounts

Whether you are self-employed or a wage-earner, funding your retirement accounts is a sure-fire way to save on taxes. Traditional IRAs (Individual Retirement Accounts) have a 2020 base contribution limit of

$6,000 per person. So, if you are married and are in a 22% tax bracket, if you and your wife max out your traditional IRA contributions, you will save $2,640 in taxes! That is like the government paying over ¼ of your retirement contribution.

In addition to the IRA, if you are a wage-earner, you can also contribution through your paycheck to a 401(k) if your employer offers it. For self-employed, you have a couple options such as an SEP IRA, SIMPLE IRA, or a Solo 401(k). Basically, you have plenty of options to create some substantial tax-savings with something we should all be doing – saving for retirement!

Oh, and if you and your spouse have less than $65,000 (as of 2020) of taxable income, you can also get a tax credit for savings (a tax credit is a dollar-for-dollar reduction of your tax). The tax credit ranges from $200 - $1000 depending on your income and how much you contribute to your retirement accounts.

3 – Sell Losing Stocks

If you and your spouse find yourselves in a higher tax bracket one year and you have some "dogs" in your stock portfolio (I'm not talking about your 401(k) or IRA funds), then it may be a good year to sell and take the loss. Now, you can only take a $3,000 deduction of your capital losses against your income per year, but that can be a hefty tax savings if you are in a higher tax bracket.

Let's say you bought $5,000 of a certain stock. Unfortunately, it never appreciated . . . in fact, over the years, it has dropped to around $1,000. You and your spouse decide to go ahead and sell it . . . you are positive (as much as you can be) that it will never rebound and that it is likely going to drop even more. You sell for $1,000 - - - creating a capital loss of $4,000.

You and your spouse are in the 32% tax bracket. You take the max deduction of $3,000 - - - saving you $960. The next year, you take the remaining $1,000 deduction (you can carryforward certain losses). The following year's tax savings is then $320. So, you ended up with $1,000 cash and $1,280 of tax savings – for a total of $2,280. Basically, you turned an 80% loss into a 54.4% loss – not a bad way to improve a bad situation.

4 – Borrow from your 401(k) to Fund Your 401(k) – *some years*

Did you know you can borrow from your 401(k) without paying taxes on it? (assuming you actually pay it back). You will pay a nominal interest to yourself as you pay back your 401(k) loan.

Let's say, however, that one year you and your spouse find yourselves in a situation where you are in a high tax bracket but short on cash. You pull $19,000 from your 401(k) as a loan. You are in a higher tax bracket (let's say 32%). You then contribute the same $19,000 you borrowed from your 401(k) back into your 401(k) as new contributions. At a 32% tax bracket, you get a tax savings of over $6,000! That's not a bad play for just moving money around (*warning – don't do this without a lot of planning and talking to a tax advisor*).

5 – For Self-Employed : Form an S-Corporation and Pay Yourself

If you are self-employed (filing a schedule C), then you should consider forming an S-Corporation and paying yourself a reasonable salary. The savings here is that you will not have to pay self-employment tax (the **~15.3%** that self-employed can't stand paying every year).

To give you an example, if you make about $100,000 in self-employment income, you will pay about $15,000 per year in self-employment tax. If you form an S-Corporation and pay yourself a salary of $50,000, you will only pay about $7,600 in payroll tax. This results in a savings to you of more than $7,000 per year!

Forming an S-Corporation can be very complicated. Additionally, you have to setup payroll and file certain payroll tax forms to the state and the IRS. Don't try this alone! Contact my office (330-331-7611) if you would like to save as much as $10,000 - $12,000 per year in taxes – we can guide you through this process.

6 – For Self-Employed : Put Your Kids on Payroll

If you are self-employed and file a schedule C (or, if you are an S-Corporation, you can contract with a separate "family management company" to achieve the same result - - - ask us about this), then you can put your kids on payroll.

Payments for services of a child under age 18 who works for his or her parents are not subject to Social Security or Medicare taxes! Additionally, when the minor files his or her tax return, he or she will receive the standard deduction of ~$12,000. What does this mean?

You can pay your son of daughter up to $12,000 per year (for actual work) and your son and daughter will pay ZERO taxes.

It gets better . . . . you (let's say you are in the 24% tax bracket) get a tax deduction for whatever you pay your son or daughter. So, if you pay them $12,000, then you will save over $4,700 (including self-employment tax savings).

And then, as the parent, you have financial control over your child's finances. So, as the custodian on his or her bank account, you set up a ROTH IRA and he or she contributes $6,000 to each year.

What a great way to help teach your children the value of work, the value of savings, and the value of not giving the government as much in tax (legally).

7 – File on Time – Withhold Enough – Make Estimated Tax Payments

The biggest pieces of advice I can give you is to always file on time. You wouldn't believe how many clients I get who filed late and end up with late filing penalties. This is like throwing money out the window. Even if you can't pay your tax liability, file on time. Late filing penalties can be as high as 25% of your actual tax liability!

The second piece of advice I can give you is to make sure you are withholding enough from your paycheck if you are a wage-earner or make on-time and accurate estimated tax payments if you are self-employed. Penalties and interest on late taxes can add up quickly and you will soon find yourself throwing thousands extra to the IRS.

Give us a call if you are interested in one of our ongoing tax packages. They started at $39.95/month for wage-earners and $99.95/month for self-employed individuals.

We do the heavy lifting for you and prepare and file your taxes every year. We also do a withholding analysis or estimated tax analysis depending on whether you are a wage-earner or self-employed. Additionally, we check your IRS files every quarter to make sure there are no red flags.

The big thing with these ongoing packages is the tax planning opportunities. We work with you to minimize the amount of tax you pay. Contact us today to see what plan makes sense for you at 330-331-7611.