

Leif Jensen and Associates

Newsletter

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Useless Information:

The Statue of Liberty features 7 points in her crown - one for each of the continents.

Pennsylvania is misspelled on the Liberty Bell, because that is how they spelled it in the 18th century..

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If you need help preparing your 2014 taxes, please call our office to schedule an appointment.

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The Harmful 1099

I have a client who was having some financial challenges. The couple had over extended themselves and created a harmful tax liability, all while being taxed at a high marginal tax rate.

So at one point the couple's family tried to help. But with one hand they giveth and with the other hand they taketh away.

The relatives gave money to mitigate the problem, but then issued the couple a 1099. So at the minimum, the couple was in a 25% tax bracket. Once the 15.3% self employment income tax rate and the state income tax rate of 5% were factored in the calculation, the client had a tax liability equal to at least 45.3% of the assistance.

The client did not make allowances for this with their tax withholding which resulted in an under withholding penalty.

Thus, the help created more harm than good. The good intentions did not help in this instance.

Dates to Remember

- Mother's Day
- Memorial Day

This Month's Featured Service

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W-2 and Tax Reduction

As happens every year, I had a meeting with a W-2 couple who were unhappy with the amount of their income tax liability.

The clients' earnings are sufficient to trigger all of the phase-out's and are now subject to the wonderful new taxes that have been created just for them. Or at least that is how they are viewing it.

They were asking what options are available to them in the future. With W-2 income there are few options to limit that income and all of them are at the pleasure of the employer to enact. The client can only exercise those that are available to them(i.e. 401K maximization, and HSA maximization) with little else available as far as tax reduction.

For the interest and dividend income, , the client may be able to switch to tax exempt investments if this is a viable option for their investment goals.

Schedule A deductions will typically decline as couples get older. The mortgage interest will decrease as the principal balance is reduced and the property taxes can only legally go so high so fast, not to mention the limitations from an AMT perspective.

From my perspective one of the best ways to reduce W-2 income is to try to get more lines on the 1040 filled out. One way that some clients are accomplishing this reduction is by adding a rental property to their investment portfolio.

A rental property, if done well, can be cash flow positive and show a tax loss.

With W-2 income it is a matter of changing the story. You need to add components that you can have control over that will allow you to potentially reduce the tax liability.

For advice on your personal situation call for an appointment.

When and If To Sell

I had a meeting where we were reviewing a couple's joint tax return prior to submission. During the conversation, I was informed that while they were a relatively new startup company, they had received an offer to purchase their company.

The offer was reasonable. No one was going to get rich off of the deal, nor was anyone risking it all for the prospect of a future.

What the client was looking at was the immediate future and anticipated the company should be able to bring in more cash flow over the next few years than that which was contemplated in the offer to purchase.

I have clients whose initial purpose in starting a business is to sell it. Those businesses typically do not get far from the starting post. One must to have something to sell and the owner typically wants to sell for a maximum price.

So my client has passed on this initial attempt. It is probable that as the company grows that there may be other offers, but for now the client is looking to grow the business and use it to fund their lifestyle.

Featured Client



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