

TAX LOOPHOLES THAT CAN SAVE YOU THOUSANDS OF DOLLARS ON YOUR TAXES.

by Diane Kennedy

■ Plan Now or Pay Later—Your Choice!

I always encourage my clients to take a look at their potential tax liability for the coming tax year, now, and not at the end of the year when it is often too late. Why? Because now is the time to find all of the loopholes you can use to your advantage throughout the tax year. What are loopholes? Tax loopholes are government incentives to promote public policy. They aren't something shady or shifty. In fact, the government wants you to take advantage of the legal tax loopholes that tax law provides. So where do you find the loopholes? Everywhere – if you know how to find them. Take a look at seven quick loopholes that can help you save thousands of dollars on your taxes! These are the same loopholes used by the rich to save on their taxes. Why shouldn't you do the same?

■ Loophole 1:

Ramp up a hobby into a business. It can be small, it can be part-time, and it can be run out of your basement – as long as it has a legitimate, profit-motive, and you keep your business finances separate from your personal finances. As long as you're trying to make some money you don't need to show a profit in the first year, the second year, or the 20th year to take advantage of the tax loopholes. Look how long it took Amazon to finally make a profit!

■ Loophole 2:

Over 724,000 Americans report that eBay is their primary or secondary source of income. Start a small business by cleaning out your garage and selling the items on eBay. Remember Loophole 1 – you only have to show you're trying to make some money – not that you are making money. Prove that, and you can write off your business losses against your other income, regardless of the amount of loss and regardless of the income.

■ Loophole 3:

Now that you have a business, look for everything you currently spend money on. An expense becomes a business deduction when it is "ordinary" and "necessary" to the production of income. There are literally hundreds of items that fit into this category.

■ **Loophole 4:**

Don't forget to keep track of everything you put into your business. Your cell phone, office furniture, computer and printer all become business expenses when you use them in your business. Have your business pay you back the fair market value for these items, and make sure to list everything going into your business, so you have a good paper trail for your accountant.

■ **Loophole 5:**

Are you planning to travel in 2006? Have you already traveled this year? Remember in order for your travel costs to be deductible, you must have a business purpose. Some ideas might be: traveling to a business seminar or other educational seminar that connects to your business, taking a look at your competition, or looking at real estate properties (if you've got a real estate business). And don't forget corporation annual meetings!

■ **Loophole 6:**

Do you have the option to self-direct your retirement plan? Do you have any 401(k) or 403(b) plans sitting around from past jobs? Why not move them into a self-directed IRA, and take control of your future. Or if you can't move your pension funds, set up a self-directed IRA anyways and start contributing to it. Review your annual income and your current pension plan. Does it make sense to convert your existing pension plan into a Roth IRA or a new Solo Roth 401(k), so that all future growth is tax free, not just tax deferred? Why pay taxes when you don't have to?

■ **Loophole 7:**

Are you subject to AMT? Three million Americans already are, and the way things stand right now another 20 million will be joining them in 2007. Are you making more than \$58,000 as a married couple filing jointly, \$40,250 for a single taxpayer, or \$29,000 for a married couple filing separately. If so, you might be in for a nasty surprise at tax time. AMT turns most tax planning upside down! In fact, regular tax planning can backfire and cost you more in taxes if you are going to fall into the AMT trap this year. AMT is the number one reason to do your tax planning early, rather than at the end of the year.

ABOUT DIANE KENNEDY

Diane Kennedy, is owner of Diane Kennedy & Associates, a leading tax strategy and accounting firm that works with clients throughout the U.S. Diane is the author of Loopholes of the Rich and Real Estate Loopholes, Tax Loopholes for eBay Sellers and co-author of The Insider's Guide To Real Estate Investing, and The Insider's Guide to Making Money in Real Estate: Smart Steps to Building Your Wealth Through Property.

Diane has written for The Tax Savings Report, Investment Advisor Magazine, Personal Excellence, the Money & Finance section of Balance Magazine, and she is a regular columnist for Healthy Wealthy n Wise. Diane has been featured in Kiplinger's Personal Finance, The Wall Street Journal, USA Today, and the Associated Press, and her national appearances include CNN, CNNfn, Bloomberg TV and radio, CNBC, StockTalkAmerica, as well as scores of other television and radio shows.

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