AHWATUKEE FOOTHILLS NEWS

Why Americans Don't Save Lots of Income Tax

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According to the Tax Foundation, America will spend more on taxes (including federal, state, and local) than it will on food, clothing, and housing combined. This is especially true for retirees that own a free and clear primary home.

Impact of Saving Lots of Income Tax: When I gave talks to annual conventions of dentists, their #1 goal is to retire 5-15+ years earlier. This is also the goal of other medical professionals such as physicians as well as other high-income households with $250,000 or more annual gross income. By saving $50,000 per year of income taxes for 20 years, if we can average an 8% return, this will be an extra $2,471,146 in their retirement fund. For lower-income households, the impact of saving $20,000 per year of income taxes for 25 years, averaging a 7% return, will be an extra $1,353,529 in their retirement fund. This is enough to retire early!

Typical Goals of Clients that I see: Retire early; Afford major fun and bucket list items in retirement; Never run out of money; Investments that don't lose; Increase spendable income; Grow assets; Pass a financial legacy to kids and grandkids; and Save income taxes. By saving substantial amount of income taxes, one can achieve these goals without taking a lot of risk in the stock market. By keeping what you earn, you avoid losing 15-30% of your hard-earned income in taxes every year. This is safer than volatile stock market investments that lose 25-50% of your life savings each stock market crash. It only took 5 weeks for a major stock market index to crash 35% due to the 2020 coronavirus panic.

Why Major Tax Savings is Rarely Achieved: The Tax Reform Act of 1986 targeted tax shelters and eliminated 90% of the major tax-savings strategies one could use at the end of the year, such as the 10% investment tax credit. Instead of the 15-year depreciation on rental houses and residential apartments allowed by the Economic Recovery Act of 1981, residential property depreciation was increased to 27.5 years life and 39 years for all other classes of real estate (deemed commercial).

Stiff Penalties on Tax Preparers and CPA's Discourage Major Tax Savings: In addition, a number of tax laws starting in the 1980s added stiff penalties on any tax preparer or CPA. Due to the 18% mortgage rates and 22.5% prime interest rate in 1981, there was a terrible recession with major unemployment. The federal government estimated that 10% of the economy was underground (meaning not taxed). The solution was to use stiff penalties on tax preparers and CPAs to discourage them from saving major tax for their clients. In other words, the federal government turned them into quasi-IRA agents. If it was a choice of losing their license or saving major tax for clients, it was clear that they wanted to protect their license. The field became mainly tax preparation. In contrast, it's major tax planning strategies that are needed to save you major income taxes.

Fear of the IRS and Unwillingness to Pay for Tax Planning: According to a 12-03-2018 study by Lexington Law, 25% are afraid of an IRS audit. For those over the age of 65, one in three fear being audited during their lifetime. These are understandable but irrational fears because the current audit rate by the IRS is 0.5 percent. However, older Americans remember the decades of higher audit rates and illegal bonuses paid to the auditors who extracted the highest dollars from taxpayer audits. In addition, most taxpayers are unwilling to pay top consultants $200-500 per hour for advanced tax planning.

Free Information on Income Tax Savings, Retirement Planning, and Solar Business Investments can be found at www.drharoldwong.com or www.solarbusinessinvestments.com

TO SCHEDULE YOUR FREE CONSULTATION
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Dr. Harold Wong earned his Ph.D. in Economics at the University of California/Berkeley and has appeared on over 400 TV/Radio programs.