AHWATUKEE FOOTHILLS NEWS

# How to use Investment Credits to Reduce Tax Obligation

***April 7, 2021 by Dr. Harold Wong***

This year we get to file our 2020 tax return on May 17, 2021 instead of the normal April 15, 2021. But what you really need are powerful tax-reduction strategies.

In March, 1980, I was a guest tax expert on KCBS, the CBS radio station in SF, CA. I explained how Democrat Jimmy Carter legally owed $0 federal income tax in 1976, the year he got elected President, and how listeners could do the same. I also explained how Republican Governor of CA, Ronald Reagan, had owed $0 CA income tax using a different strategy.

Jimmy Carter's 1976 tax return showed an adjusted gross income of $54,934, down from $136,926 in 1975. After deductions, he was left with a tax obligation of $11,675. His actual tax was reduced to $0 because of a $20,864 investment tax credit (ITC) from equipment purchases for his peanut processing business in Georgia, as well as depreciation of that equipment. Carter had taken a similar deduction in 1975.

In 1976, the law required that one first reduce current year's tax to $0. Any excess ITC could be carried back 3 years and so one could potentially recover all tax paid in the previous 3 years. Any excess ITC could then carryforward for up to 7 years. President Carter was so embarrassed that he made a $6,000 donation to the IRS. He really had nothing to be embarrassed about. The purpose of ITC was to stimulate purchase of new machinery, which allows businesses to hire more employees and pay higher wages for their increased productivity.

How You Can Reduce Your Taxes to $0 Just like President Jimmy Carter

In 2005, the Energy Policy Act introduced large ITC for solar energy equipment systems. The ITC was extended on December 27, 2020 as part of a coronavirus federal bill and will be 26% in 2021 and 2022 before dropping to 22% in 2023 and 10% in 2024 (but for commercial solar only and 0% for residential solar). In addition, one can take Section 179 and deduct most of the cost of the solar equipment in the year it's placed in service, even if it's December, 2021

Case Study: a retired taxpayer has $100,000 of annual taxable income in 2020 and wants to also do a $100,000 Roth IRA Conversion. They also want to recover tax paid in 2019 on $152,000 of income. Total 2020 taxable income is now $200,000 and would owe $36,159 of federal tax. However, they purchase $120,000 of solar business equipment that is leased out to giant food companies.

They take a $104,400 Section 179 deduction and now their taxable income is reduced to $95,600 and would normally owe $12,612. They next apply the 26% solar ITC of $31,200 and reduce 2020 federal tax to $0. With the $18,588 extra solar ITC, they can recover all the tax paid in 2019 and still have extra ITC to carryforward to 2021. If we add the AZ tax savings, they will save about $60,000 in taxes, which cuts their true investment in half. Their revenue from generating power will create a steady 14% annual rate of return each year over the 10-year lease.

Conclusion: there will probably be even greater future tax incentives under Biden's New Green Deal. High-income households now have the opportunity to pay $0 federal income tax by investing in clean alternative energy equipment that will save lives from dangerous fossil fuel emissions; and become a hero to the environment.

Free Webinar on Sat. 4/24/2021, 10:30 am - "Pay $0 Taxes, Just Like Jimmy Carter did in 1976."

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

**To schedule your Free Consultation Contact Dr. Harold Wong at (480) 706-0177 or harold_wong@hotmail.com to RSVP.**

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