Investments
and
Tax Reduction Strategies

Course Description

All tax professionals need to know the tax-economics of investing for themselves and their clients. This need is accentuated by the rapid rise of the Internet as a broad-based and effective investment tool.

The tax professional is in a special position to detect a client's need for financial planning. Preparing returns discloses assets, savings, business entities, and family members. Knowledge of the client's assets, activities and the tax characteristics of available entities permit investment matching for maximum after-tax return.

The basic tax characteristics of the primary tax entities are explored and analyzed. Their ability to defer, reduce, and eliminate tax is examined. Client goals, purposes and risk tolerances are determined and quantified using the Sharp ratio. Investments and assets are then evaluated using a variety of tools found on the Internet. Finally, investments and entities are matched to produce the best after-tax return for the client.

Completion Deadline & Exam: This course, including the examination, must be completed within one year of the date of purchase. In addition, unless otherwise indicated, no correct or incorrect feedback for any exam question will be provided.

Course Level: Overview. This program is appropriate for professionals at all organizational levels.
CPE Credits: 14 (CPA, EA)
Category: Taxation
Prerequisite: General understanding of federal income taxation.
Advanced Preparation: None

Course Learning Objectives

Chapter 1: Introduction

1. Identify Internet advantages including depth and volume of available financial information and specify steps in the mapping process to prepare for financial independence.
2. Recognize investment planning goals and purposes, select retirement planning direction, and identify resource allocation including necessary generational changes.
3. Determine the development and implementation of a financial plan for retirement by:
   a. Identifying how to manage income to generate and protect cash noting savings elements;
   b. Specifying physical and financial assets including stocks and bond types;
   c. Selecting mutual funds based upon an investor's personal objectives and risk tolerance; and
   d. Recognizing major types of life insurance including their use as financial planning tools.
4. Identify active and two passive investment acquisition strategies.

Chapter 2: Entities & Title

1. Identify tax and legal title formats noting the distinctions among these entity formats by:
   a. Determining the advantages and disadvantages of holding property individually and through a sole proprietorship or a corporation noting associated title pitfalls;
   b. Specifying the C corporations groups including the estate-planning problems associated with each; and
   c. Recognizing advantages that partnerships may have over corporations.
2. Cite the S corporation requirements noting tax advantages and disadvantages particularly those associated with incorporating a farm.
3. Specify the title holding benefits of trusts, co-tenancy, partnerships, and limited liability companies and the tax characteristics of each.
4. Identify the types of retirement plans used to provide lifetime benefits to a business owner and to employees, determine how title can be held on behalf of minors and the tax treatment of custodianships, and specify the tax treatment of a probate estate.

Chapter 3: Deferral

1. Identify the benefits of tax deferral, the use of tax deferral under old §1034, and the tax deferral advantages under §1031 noting its basic elements.

2. Cite the related party §1031 restrictions noting prohibited parties or entities and permissible disposition exceptions, identify protections for ex-change participants, and determine the history of the personal and multiple property regulations including the unique personal property like-kind and netting requirements for multiple asset exchanges.
3. Recall the evolution of §1031 delayed exchanges noting allowable transfers, determine how to select replacement property within statutory deadlines, specify constructive receipt safe harbors, recognize methods to secure exchange party performance, and identify the §1031 partnership underlying asset rule. Recognize how to design retirement plans following basic steps, identify the most popular methods for providing for retirement, and specify near retirement investments.
4. Determine the requirements for an installment sale and how to elect out of the installment method, specify variables affecting §453 avail-ability, and recognize the use a property option to receive income and postpone tax.

Chapter 4: Reduction

1. Identify tax saving credits noting qualified computational expenses and their limitations and restrictions.
2. Recognize the estimated tax rules and procedures including payment deadlines and underpayment penalties noting the economics of overpaying estimated taxes, and specify the types of interest that are nondeductible including personal interest under §163(h)(1).
3. Determine the deductibility of investment interest, prepaid interest, points, and prepayment penalties noting the offset of passive income with rental property mortgage interest.
4. Identify business vehicle operating costs using (or switching between) the actual cost method or the standard mileage rate and allocating expenses based on §162 usage, cite the importance of retaining substantiatable expense and mileage records, and specify depreciation traps when purchasing a vehicle.
5. Determine the requirements for business expenses to meet the directly related test, specify the elements of the associated test, and identify the business expense statutory exceptions and the application of R.R. 90-23 and R.R. 99-7 to the deduction of transportation costs to a temporary work location.
6. Recognize business asset depreciation using both ACRS and MACRS recovery classes, identify sources of §172 net operating losses (NOLs) noting carryback and carryover rules, cite several tax breaks for nonitemizing taxpayers, determine the advisability of filing an amended return, specify how to avoid audits by claiming refunds for provable items, and identify which return amendments are safest.

Chapter 5: Income Splitting

1. Specify formats for income splitting, recognize the tax treatment of employee and self-employed business expenses particularly home-office expenses noting the two non-exclusive use exceptions and the income limitation, identify changes made to home office deduction under TRA ’97, and recognize the ability of self-employeds to make annual deductible contributions to a Keogh plan.
2. Determine the tax opportunities available to an unincorporated business by specifically recognizing retirement plans, the hiring of family members, travel expenses, casualty losses, bad debts, and self-employment tax.
3. Identify the uses and tax characteristics of regular and S corporations by:
    a. Specifying circumstances when incorporation is desirable,
    b. Determining the taxation of these entities including their ability to split income; and
    c. Specifying initial §351 formation and capitalization issues and identifying appropriate tax form filings for each entity.
4. Recognize the use of partnerships to split income among partners specifically including the use of §704(e) family partnerships and the consequences of gifting a partnership interest to a child or to another family member.
5. Identify the use of a custodianship to split income and contain the “kid-die tax” noting initial planning considerations and examples of good in-vestments for children, determine deductions and credits for childcare, education, children, and §7872 loans, and specify the income and later estate tax benefits of gifts.

Chapter 6: Elimination

1. Identify tax elimination techniques by:
    a. Citing §121 home sale exclusion noting its differences with prior tax law;
    b. Determining qualifications for tax-free state or local obligations specifically including private activity bonds; and
    c. Specifying the tax elimination aspects of family transactions such as gifts, bequests, inheritances, life insurance, and even divorce.
2. Recognize employer deductions as a means to increase tax-free incentive-based compensation for employees by:
    a. Specifying rules for excluding fringe benefits under §132 and their proper reporting on the W-2; and

b. Identifying popular employee fringe benefits including employer paid accident & health coverage, meals or lodging, cafeteria plan benefits, §127 education assistance, achievement awards, group life insurance and dependent care assistance.

3. Determine how to value fringe benefits according to IRS regulations, identify how to comply with ERISA requirements, properly report reimbursed and unreimbursed business expenses under accountable and non-accountable plans, recognize substantiation of auto expenses using a fixed and variable rate, and specify eligible retirement benefits exempt from social security taxes.