Retirement Plan Types for Self Employed

	Traditional IRA	Roth IRA	SEP IRA	Solo 401(k)/Solo Roth 401(k)	SIMPLE IRA	Cash Balance
Best for	Individual	Individual	Self-employed people; employers with one or more W2 employees	Self-employed people with no employees other than a spouse	Self-employed people; businesses with up to 100 W2 employees	Highly profitable businesses with consistent profit patterns
Funded by	Individual	Individual	Employer; individual, if self-employed	Self or qualified spouse	Employee deferrals; employer contributions	Employer
2021 *employee* contribution limits	Based on Individual's IRA eligibility; maximum of $6,000; $7,000 for those age 50 and older	Based on Individual's IRA eligibility; maximum of $6,000; $7,000 for those age 50 and older	Contributions for employees made solely by employer (or sole proprietor); limit of 25% of net self-employment income, to a maximum of $58,000	Lesser of $19,500 ($26,000 for those age 50 and older) and 100% of earned income	$13,500; $16,500 for those age 50 or older	N/A
2021 *employer* contribution limits	NA	NA	The lesser of up to 25% of compensation or $58,000	As both an employee (of yourself) and employer, up to $58,000, or $64,500 with catch-up contribution	Mandatory matching contribution of up to 3% of an employee's compensation or fixed contribution of 2%	Contributions are mandatory and based on age and wage. Owner contributions are often set at a percentage of income which may be adjusted every 3 to 5 years. Wages are limited to $290,000 (indexed). Individual contribution limits of up to $380,000 per person depending on age and wage
Taxes on contributions and earnings	Contributions and investment income are tax-deferred; earnings grow tax-deferred	Contributions are made after tax and investment income and earnings grow tax free	Contributions and investment income are tax-deferred; earnings grow tax-deferred	Contributions and investment income in a traditional Solo 401(k) are tax-deferred; contributions to a Solo Roth 401(k) are taxable; earnings grow tax-free	Contributions and investment income are tax-deferred; earnings grow tax-deferred	Contributions and investment income are tax-deferred; earnings grow tax-deferred
Taxes on withdrawals after age 59 1/2	Traditional withdrawals are taxed at ordinary rates	Roth withdrawals aren't taxed	Taxed at ordinary rates	Traditional Solo 401(k) withdrawals are taxed at ordinary rates; Solo Roth(401)k withdrawals aren't taxed	Taxed at ordinary rates	Taxed at ordinary rates
	Traditional IRA	**Roth IRA**	**SEP IRA**	**Solo 401(k)/Solo Roth 401(k)**	**SIMPLE IRA**	**Profit Sharing**

Pros	Deductible contributions lower your tax burden for the year you make them	Distributions in retirement aren't taxed	Simpler for employers to set up than Solo 401(k)s; employers get tax deductions on contributions	Allows small-business owners to make both employee and employer contributions for themselves; has higher contribution limits than some other plans	Employees can contribute up to 100% of compensation, up to limit	Allows Owners who asre 40+ age to contribute much higher contributions per year.Paired with 401k plans to achieve individual contrtibution limits of up to $380,000 per person
Cons	If you or your spouse has a retirement plan at work, you may not be able to deduct your contributions, if your income exceeds IRS limits.	Contributions (but not investment earnings) can be withdrawn at any time, without penalty	Lower contribution limits for sole proprietor than a Solo 401(k); doesn't allow catchup contributions; employer contributions are discretionary	More complicated to set up than a SEP IRA; only allows withdrawals before age 59 ½ for disability or plan termination	25% penalty on distributions made before age 59 ½ and within the first two years of the plan; no loans allowed	Employer must make all plan contributions whether there are profits ir the cash to do so. Sybject to mandatory insurance coverage.
Good to know	There are required minimum withdrawals starting at age 72.	Must have earned income in order to contribute	There is a different calculation to determine allowable SEP contributions if you're both the employer and employee	Employer contributions might be subject to vesting terms	Distribution rules penalize rollovers to another account within the first two years of plan ownership; a SEP IRA or Solo 401(k) might be better for the self-employed	Investment risk lies solely on employer.
Loans Available	NO	NO	NO	YES	NO	YES

Sources: IRS.gov, Fidelity, Schwab

Morrison Nordmann And Associates

WORKING WITH THE RIGHT ADVISOR

These days, too many successful, wealthy individuals and families are simply not getting the advice that's most appropriate to help them achieve their key financial goals.

There are a number of reasons for this. But one main culprit is that, overall, there are a relatively small number of financial advisors we would describe as extremely talented and deeply caring professionals.

So it's a good time to ask yourself: How good is the financial advice I'm getting these days?

Four types of advisors

To make smart decisions about your wealth, you want to be sure you're working with true experts. That means professionals who are both committed to your well-being and best interests, and extremely technically capable in investments and advanced planning. These are advisors we call consummate professionals.

Unfortunately, there are three other types of advisors operating today—and we strongly suggest you steer clear of them!

Pretenders want to do a very good job. They have great intentions. The problem: They lack the knowledge and capabilities to do so. Pretenders simply aren't familiar with many of the more advanced and sophisticated wealth-building and wealth-protecting solutions you may need to pursue your goals. Advisors who are Pretenders are not bad people. To the contrary, they tend to be intelligent, hardworking and well-meaning. They want to do what is best for their clients, but from an objective vantage point, they are just not capable. Their earnest hard work does not change the fact that a great many of them probably are not able to provide you with the high-level, sophisticated tools, strategies and products that are almost always necessary to become meaningfully wealthier, and they probably aren't adept at the strategies that are so critical to protecting your wealth.

Exploiters are often technically adept—highly skilled in advanced financial strategies. The problem: The financial and legal strategies they often turn to are technically legal—but highly questionable. Thus, there is often a good possibility that the strategies they advocate will blow up on you—often years after you've taken their advice. Put simply, Exploiters are not looking out for your best interests.

Predators are criminals. Their objective is to separate you from your wealth using cunning, guile and duplicity. Predators may or may not be technically sophisticated. However, they're superbly capable of being manipulative and building rapport and trust.

FINDING CONSUMMATE PROFESSIONALS

The key differences among the four types of professionals are summarized in this chart.

Key Differences

Characteristics	Consummate Professionals	Pretenders	Predators	Exploiters
Expertise	High	Limited	Across the spectrum	Often high
Integrity and concern for clients	High	Usually high	Nonexistent	Very low
Interpersonal Skills	High	Across the spectrum	High	Across the spectrum
Legitimate solutions	Always	To the very best of their knowledge	No	In the gray area, aggressive pushing the envelope, or excessive

Clearly, you want a consummate professional on your side—and there are a few steps to help you gain greater confidence that you are working with one.

The way that most of the affluent and the accomplished find exceptional financial advisors is via introductions from professionals they work with. Example: If you need an exceptional money manager, your accountant may know trusted experts he or she can introduce you to. Or if you have an estate tax issue for which life insurance is the best solution, your trusts and estates lawyer likely knows leading life insurance agents.

Going to professionals who have proven themselves to you can be a very powerful way to find other consummate professionals. When accountants or lawyers refer you to a financial advisor, they are putting their reputation and professional judgment on the line. This is not something they are likely to do unless they feel the financial advisor is a consummate professional.

Another consideration is whether the financial advisor is a thought leader. That is, he or she is recognized as a leading authority by other professionals, the wealthy and successful, and even competitors. By identifying true thought leaders, you increase the likelihood of working with some of the most erudite professionals in their fields.

Next steps

Are you working with a consummate professional today? We hope so. If your advisor focuses on aligning your wealth with your key financial values and goals—and does so with the help of advanced solutions and a team of experts—it's likely that you are!

One of the best ways to deal with a situation where you're just "not completely sure" or you "feel a little uncertain" is to conduct a stress test. This is a process of critically evaluating key aspects of your current financial situation and how they are being managed. Or it may involve carefully assessing a particular strategy or product you are considering and "putting it through its paces" before deciding whether to move ahead.

Stress testing gives you the opportunity to correct mistakes or use solutions and products that can do a lot more to help you accomplish your goals. Simply put, stress testing often makes a lot of sense if you want to avoid financial advisors who are Pretenders, Predators or Exploiters.

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2021 TAX TRAINING

Rehmann

EMPOWER YOUR PURPOSE

Introduction

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Learning Objectives

1. Understand the tax impacts and planning mechanisms resulting from a Qualified Opportunity Zone
2. Understand the tax impacts and planning mechanisms resulting from a like-kind exchange
3. Understand the facts and circumstances ideal for cost segregation studies
4. Identify various other tax planning opportunities available
5. Learn the tax impacts of proposed tax law changes

Agenda

- Opportunity Zones
- Like-Kind Exchanges
- Cost Segregation
- Taxes for Self-Employed Individuals
- Proposed Tax Law Changes


OPPORTUNITY ZONES

Opportunity Zones

- The Qualified Opportunity Zone (QOZ) program was created to boost low-income communities with needed investment
- The areas are selected by the governor of each state and can include up to 25 percent of low-income census tracts in that state
- The QOZ program provides investors with significant tax incentives
- Eligible investors include individuals, C corporations, S corporations, partnerships, trusts, and estates

Tax Incentives

- The QOZ allows investors with a capital gains event to reinvest the capital gain into a QOZ, this capital gains event could be from selling stock or property

- Tax Incentives include:
  - Deferring capital gains taxes until December 31, 2026 or when the QOZ investment is sold
  - A 5-year holding period increases the rolled-over capital gains basis by 10 percent
  - A 7-year holding period increases the rolled-over capital gains basis by 15 percent
  - A 10-year holding period allows investors to not be taxed on the gains from the eventual sale of the QOZ
    - Depreciation is not recaptured

Opportunity Zone Requirements

- Investors have 180 days to reinvest capital gains, whether in an active business or a passive QOZ

- Qualified Property
  - Personal business property like office furniture and computers must be new to the zone, although it can be used equipment

  - QOZ buildings must be new or substantially rehabilitated, which means one of three things:
    - New construction or never used in a business before
    - Occupying after three vacant years
    - Improvements equal to the portion of the original purchase price allocated to the building

LIKE-KIND EXCHANGES

Like-Kind Exchange

- A like-kind exchange is a tax-deferred transaction that allows for the disposal of an asset and the acquisition of another similar asset without generating a capital gains tax liability from the sale of the first asset

- Under the Tax Cuts and Jobs Act, this now only applies to changes of real property

- Real properties generally are of like-kind, regardless of whether they are improved or unimproved

Like-Kind Exchange Requirements

- The asset being sold must be an investment property or held for business purposes
- The asset being purchased with the proceeds must be similar to the asset being sold
- The proceeds from the sale must be used to purchase the other asset within 180 days of the sale of the first asset, although you must identify the property or asset that you are purchasing in the like-kind exchange within 45 days of the sale
- The like-kind exchange must be reported on Form 8824

Current Tax Incentives

- Tax-deferral of capital gains

- Provides leverage and increased cash flow for reinvestment

- No limit on number of exchanges

- Can use a Delaware Trust to facilitate this strategy
  - Receive beneficial trust interest in a fraction of a pool of real estate
  - Alternative where replacement property isn't located or if no longer wish to manage real estate

- Gain could still be triggered if debt or other property (i.e. cash) is included

Tax Law Changes?

- Are a target of many tax proposals
- Proposals have limited gain deferral per year
  - $500,000 for single taxpayers
  - $1,000,000 for MFJ taxpayers


COST SEGREGATION

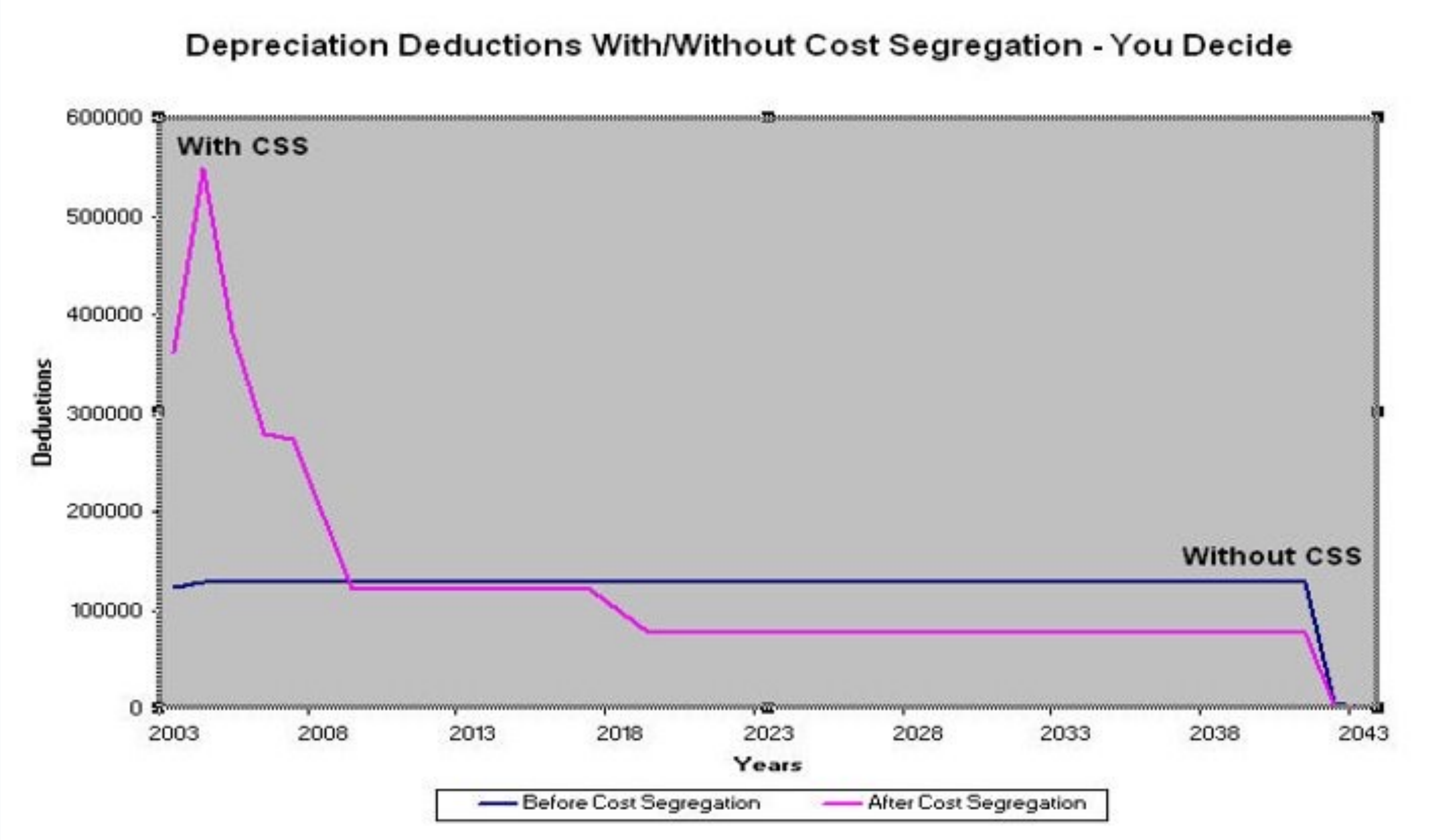
Goal of Cost Segregation Studies

Would you Rather Get Your Money Back Today or in 39 Years?

- Goal = to identify all construction-related costs that can be depreciated over 5, 7, 10 and 15 years and reclassified from 39 and 27.5 years
- Traditional depreciation for Real Property is 39 years for commercial property and 27.5 years for residential rental property
- Reducing tax lives results in accelerated depreciation deductions, a reduced tax liability, and increased cash flow

"You must pay taxes. But there's no law that says you got to leave a tip."

Timing Illustration



Cost Segregation Studies
Includes New and Previously Acquired Properties

- The optimal time to perform a study is the year the property is placed in service.
- Current IRS procedures allow a taxpayer to recover any missed depreciation on properties without amending prior tax returns.
- Most studies are performed on acquired properties where land and building is purchased for one negotiated price in a previous year.

NEW CONSTRUCTION
Indirect / Soft Costs
+
General Contractor Costs
+
Direct Costs outside General Contract

OR

ACQUIRED PROPERTY

Purchase Price

Land Cost

Building and Site Implementation Cost

MACRS* - GDS

39 - Year Property

27.5 – Year Property

15 - Year Property

7 - Year Property

5 - Year Property

3 – Year Property

****Modified Accelerated Cost Recovery System***

Items To Be Reclassified in a Cost Segregation Study

- Site Improvements (Landscaping/Parking)
- Light Fixtures
- Branch wiring
- Special Plumbing
- Flooring
- Millwork
- Millwork Window Coverings
- Partition Walls
- Cabinetry
- Furnishings
- Shelving
- Wall Coverings

Qualified Improvement Property

- CARES Act included a technical correction from the 2017 Tax Cuts and Jobs Act
- Qualified Improvement Property (QIP)
  - Any improvement made to an interior portion of the building (non-residential)
  - Placed in service after building was first placed in service and after December 31, 2017
  - Cannot be enlargement of building, related to elevator/escalator or internal structural framework
- QIP is now 15 year property eligible for bonus depreciation
  - Previously 39 year property not eligible for bonus depreciation
- Need to file automatic method change and attach to return; OR
- Amend 2018, 2019, 2020 tax returns

OTHER TAX ITEMS

Entity Choice

- Corporation
  - C Corporation
  - S Corporation

- Partnerships

- Sole Proprietor

- LLC

- LLC electing to be taxed as C corp or S corp

Home Office Deduction

- Available to self-employed individuals

- Requirements
  - Regularly use portion of home exclusively for business
  - Principal place of your business

- Deduction limited to net business income

- Simplified Method
  - Applicable rate per square foot used for business (currently $5)
  - Limited to 300 square feet ($1,500 max deduction)
  - Home related itemized deductions claimed in full separately
  - Excess deductions are not carried over

Home Office Deduction

- Regular Method
  - Actual expenses of home office including mortgage interest, insurance, utilities, repairs, and depreciation
  - Based on percentage of home used for business
  - Home related itemized deductions are split between Sch A and Sch C
  - Recapture of depreciation required upon sale of home
  - Excess deductions can be carried forward and offset future income

Business Use of a Car

- If you use your car for business purposes, you may deduct car expenses using one of the following methods:
  - Standard mileage rate
  - Actual car expenses

- Standard mileage rate
  - Must choose this election in the first year the car is available for use in your business
  - Standard mileage rate for 2021 is 56 cents
  - Need to track total business miles and total miles driven, if the car is not used 100% for business purposes
    - Can also take the business percentage of interest paid on the car loan, parking fees and tolls, and personal property taxes from the car

Business Use of a Car

- Actual car expenses
  - Expenses include depreciation, licenses, gas, oil, tolls, lease payments, insurance, garage rent, parking fees, registration fees, repairs, and tires
  - Need to track total business miles and total miles driven, if the car is not used 100% for business purposes
  - Your business miles divided by your total miles driven will be the percentage of deduction you can take on your actual car expenses

Depreciation

- Passenger Auto Limitation
  - Limits the amount of depreciation each year
  - Year 1: $18,200 (bonus/179), $10,200 (no bonus/179)
  - Year 2: $16,400
  - Year 3: $9,800
  - Succeeding Years: $5,860
- Heavy Vehicles (GVWR over 6,000 lbs) are treated as transportation equipment and are not subject to passenger auto limitations
- Bonus depreciation scheduled to phase out
  - 100% for 2021-2022
  - Reduced by 20% each year from 2023-2026
  - Completely phased out in 2027

Qualified Business Income Deduction

- 20% deduction for qualified business income
- Qualified income is business income from sole proprietor, partnership, S Corporations, and some trusts and estate.
- Limits based on W2 wages and property if income over certain thresholds
  - $315,000 for MFJ or $157,500 for single
- Aggregation can be utilized to maximize deductions for businesses that meet certain qualifies
- Deduction for certain types of specified service trades or businesses phases out once above the threshold amounts

Passive Activities

- Real-estate is generally considered a passive activity
- Losses from passive activities are limited to amount of passive income
  - Excess losses are carried to future years to offset passive income
- Real estate professionals
  - More than half of total personal services in real property activities
  - 750 hours of service during the year in real property activities
- Can group activities together to determine passive gain or loss
  - Need to have similarities, common control, common ownership, similar location, and interdependence
  - Once grouped, must generally continue for future years

Other Tax Items

- Self-employed health Insurance
- Self-employed retirement plan contributions
  - SEP plans allow you to make contributions up to $64,500 depending on age
  - Limited to 25% of net earnings from self-employment
  - Other retirement plan options are available with different limitations

PROPOSED TAX LAW CHANGES


QUESTIONS