



# 4-Serenity, Inc. Tax-Saving Tips

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## Convert Your Personal Vehicle to Business and Deduct up to 100 Percent

You probably like your personal vehicle just as it is. But wouldn't you like it far better if it were producing tax deductions? Perhaps big deductions, immediately. And the Tax Cuts and Jobs Act gives you the tax reform road map on how to do this.

Of course, to make this happen, you need to strip your personal vehicle of its personal status and re-dress it as a business vehicle. This is not difficult. In its new business dress, your former personal vehicle can qualify for up to 100 percent bonus depreciation.

**Example.** Sam has a personal vehicle with a tax basis for depreciation of \$31,000. With 70 percent business use on this 100 percent bonus depreciation-qualifying vehicle, Sam has a new \$21,700 tax deduction for this year ( $\$31,000 \times 70$  percent).

## Tax Implications of Goodwill

Here's a primer to help you avoid confusion about goodwill:

- As the seller, you have *self-created* goodwill when the total sales price of your business exceeds the fair market value of its assets, both tangible and intangible.
- You have *acquired* goodwill when you purchase the assets of another company for more than the value of its tangible and intangible assets.

Self-created goodwill is a capital asset because the law doesn't specifically exclude it from being a capital asset. Thus, your sale of self-created goodwill produces tax-favored capital gain.

Acquired goodwill is an amortizable Section 197 intangible. You recover its cost in equal monthly amounts over 15 years. When you sell the acquired goodwill, it's a Section 1231 asset if you held it for more than one year, which means you qualify for the best of all tax worlds:

- If you have a net gain, it is a long-term capital gain.
- If you have a net loss, it is an ordinary loss.

## How Cost Segregation Can Turn Your Rental into a Cash Cow

Cost segregation breaks your real property into its components, some of which you can depreciate much faster than the typical 27.5 years for a residential rental or 39 years for nonresidential real estate.

When you buy real property, you typically break it into two assets for depreciation purposes:

- land, which is non-depreciable; and
- building (residential is 27.5-year property; nonresidential is 39-year property).

With a cost segregation study, you make your property much more than a building on land. Here's what's possible with a cost segregation study:

- Land, which is non-depreciable
- 5-year property
- 7-year property
- 15-year property
- For the remainder, 27.5-year property or 39-year property, depending on building use

With a cost segregation study, you front-load your depreciation deductions and take them sooner, but you'll take the same total depreciation amount over the lifetime of the property.

Tax reform under the Tax Cuts and Jobs Act boosted bonus depreciation from 50 percent to 100 percent, and this new law also allows bonus depreciation on qualifying used property. Cost

segregation is made to take advantage of these new law changes.

And you can apply cost segregation to rentals and offices you have had for 10 years or that you are buying tomorrow. But if the passive activity loss rules affect your ability to take immediate rental losses, we need to run your numbers to see if you can benefit and also identify what you could do to benefit even more.

Tax reform in one of its "not beneficial to you" new law sections took away your ability to do a like-kind exchange for non-real property. Therefore, if you do a cost segregation and then later use a like-kind exchange on that property, you'll have taxable gain attributable to everything that's not land or 27.5-year or 39-year property.

We recently saw a cost study on a new \$400,000 property purchased this year. The study enabled a speed-up of \$50,000 of deductions to this year's tax return. For this taxpayer, who was in a combined federal and state income tax bracket of 40 percent, this put \$20,000 in his pocket this year.

## Retirement Plan and IRA Rollover Advice

When moving your retirement money to an IRA, you should follow this one rule of thumb. If you fail to follow the rule we're about to reveal, you can face two big problems:

- First, your check will be shorted by 20 percent.
- Second, you will be on the search for replacement money.

Here is this very important rule of thumb that you need to follow: Move the money using a trustee-to-trustee transfer. Nothing else. There are two types of

transfers that can be used to move qualified plan distributions into IRAs in a tax-free manner: (1) direct (trustee-to-trustee) rollovers and (2) what we will call traditional rollovers.

If you want to do a totally tax-free rollover, do nothing other than the direct (trustee-to-trustee) rollover of your qualified retirement plan distribution into the rollover IRA. This is easy to do.

Simply instruct the qualified plan trustee or administrator to (1) make a wire transfer into your rollover IRA or (2) cut a check payable to the trustee of your rollover IRA (this option is less preferable than a wire transfer). Your employee benefits department should have all the forms necessary to arrange for a direct rollover.

The default method of taxation for a PFIC is in Section 1291 of the tax code. Under this method, you pay a lot of tax on so-called excess distributions.

## Tax Time Bomb: Passive Foreign Investment Companies

Passive foreign investment companies, or PFICs, are subject to some of the most complex provisions of the tax law. You may own one and not even know it. A passive foreign investment company is any foreign corporation for which:

- 75 percent or more of its gross income for the tax year is from passive income, or
- 50 percent or more of its assets produce passive income or are held to produce passive income.

Passive income includes most investment income, including, but not limited to, interest, dividends, rents, annuities, and the sale or exchange of capital assets. Almost all foreign mutual funds are PFICs. Stock you hold directly in a corporation can also be PFIC stock if the foreign corporation's activities meet one of the above tests.