

## [Keeping the Tax on Your Business](#)

Everybody wants to keep as much of the money they earn as possible. Those people in the higher income brackets are forever looking for a way to protect their money from the income tax collectors.

Thus, the idea of personal tax shelter, the thing is, how can you tell which ones are the good ones, and which ones are the bad ones. - Tax shelters can certainly 'keep your money out of the hands of the IRS' - but some of them can cost you dearly as well.

Generally, all real estate purchases have definite tax advantage. In even the simplest kind of transaction such as buying a better home for your family, you'll be able to deduct from your gross income the amount you pay in mortgage interest and property taxes.

If you rent out your old house, or buy a house as a rental property, you'll be allowed to deduct all your expenses from the rent you receive. You can also deduct the depreciation on the house, based on the cost or on the market value at the time the house was converted to a rental property, whichever is lower.

You also have the option to compute your depreciation over 15-years, which would probably give you a tax loss even though the property is producing a cash income for you. Remember though, you cannot claim a depreciation on the value of the land, only for the cost of the house.

Until 1981, you could not deduct losses on a property rented to relatives - however that rule has been repealed and now makes family tax savings available in certain situations when you rent to relatives. Be sure to check with your local IRS office for complete details.

So-called Clifford Trusts are tax shelters that shift the gross income of a company or family bread-winner to other family members in lower tax brackets. An income-producing property is transferred to a trust which must be set up to last 10 years and a day. The beneficiary receives the income during this period, and then the property reverts back to the grantor.

This type of trust is often used to accumulate money for children, who can use it for higher education or for a start in a career or business of their own. You should bear in mind when setting up such a trust however, that parents have a legal duty to support their minor children and thus, a trust cannot be set up to be used for that purpose.

Equipment Leasing Programs are another common income-sheltering method. Most of these programs can be combined with a trust. Here's how they work: The owner of a business sets up a trust for a family member. Business property or equipment is transferred to the trust, and then leased back to the business. The trust gets the income, and the business gets a deduction for the rental fees it pays.

From another angle, the trust could buy equipment for lease to the business and get deductions for interest and other expenses involved. Investment tax credit can also sometimes be claimed in non-net-lease situations.

Making interest-free loans is another method of sheltering one's income. Say you lend several thousand dollars to a son or daughter who invests the money. The borrower gets the income, and you eventually get your money back. If you're in the 50% tax bracket and the borrower is in the 25% bracket, your tax savings can be considerable.

Investing in municipal bonds is very definitely a means of sheltering your income. Income from these bonds is tax free, but it's generally lower than from other types of investments. Municipal bonds pay at a fixed rate of interest. Relative to other kinds of investments you could make, you'll lose on Municipals if interest rates go up, and win only if the interest rates on other investments go down.

By now, everyone knows about IRA's and Keogh plans for the self-employed. You put money into a personal retirement trust and pay no taxes on it until you actually withdraw from it. Some companies give their employees a chance to set up their own retirement accounts, thereby deferring part of their gross incomes until after they retire.

However, deferring income until after one retires is no longer as attractive as it used to be, particularly if your tax rate is not expected to change after retirement. If you don't anticipate a lower tax bracket after you retire, it's generally better to take all your income now and invest it in high yield growth funds that will mean more money for you in your retirement years.

There are innumerable ways and methods to shelter your gross income from the tax collectors, all of them legal. The important thing is to check them out with your tax preparer and decide which would be best for you.

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