

Powerful Tax Savings for High-Income Individuals in 2011

It never ceases to amaze us how much money is needlessly handed over to the IRS in taxes every year because individuals have not been properly advised on how they can best save on taxes through the use of qualified retirement plans. We know of cases where people have been paying **tens of thousands of dollars every year in unnecessary taxes** because they have not set up the most advantageous retirement plan (or combination of plans) for their circumstances. Those thousands and thousands of dollars could have (and should have) been flowing into a retirement account. And funding a tax-sheltered retirement account with money that could have ended up at the IRS is doubly sweet.

It takes just a bit of time and a little number-crunching to discover your maximum tax-savings potential. For high-income self-employed professionals and consultants as well as owners of 1-5 person firms, the tax-saving opportunities are exceptional. With tax rates likely to increase soon for high-income individuals, now is an opportune moment for them to look into their options for reducing their taxable income.

High-income individuals who operate independently or as part of a small firm should take a very hard look at an IRS-approved defined benefit (DB) pension plan. Why? Because a DB plan offers the highest fully tax-deductible contribution limits—in some cases 2 or 3 times as much as an Individual 401(k). Many people with DP plans are contributing \$100,000 or more per year to their plans, which, at a 38% tax rate, provides them **annual tax savings of \$38,000**. And on top of just saving on current-year taxes the money goes into a tax-deferred account where wealth can accumulate faster than it would in a regular taxable account.

Why do so few people take advantage of defined benefit pension plans? We can't know for sure, but a major reason is probably unfamiliarity. And the main reason for this unfamiliarity may be that it is not really in anyone else's interest to promote defined benefit plans, so they are not widely advertised. The reality, however, is that an individual with the right profile can reap massive tax savings with a DB plan.

If you are 45 or older and have an income of at least \$100,000 you may be well-suited for a DB plan. Key prospects are:

- Business owners with up to 5 employees
- Independent professionals, contractors, consultants, sales reps
- Employees who also receive self-employment income from consulting, directors' fees, or side businesses
- Self-employed spouses of high-income earners

Additionally, many people in the following occupations can benefit from a DB plan:

Architects
Attorneys
Consultants

Contractors
Independent Corporate Directors
Dentists
Doctors
Entrepreneurs
Graphic Designers
Independent Insurance Agents
Manufacturer's Reps
Mortgage Brokers
Real Estate Agents
Software Developers

Once you have determined that the DB plan makes sense for you, then the set-up is a snap. We use a third-party pension administrator that works with our clients' CPAs and handles all of the tax-reporting and record-keeping details. One thing to keep in mind is that a defined benefit plan for saving on 2010 taxes must be set up by December 31, 2010 (or the end of your business's fiscal year) and must be funded by the business's tax filing deadline.

Right now interest rates are at rock bottom, global stock markets are volatile and the economic situation is, in the words of Federal Reserve Chairman Bernanke, "unusually uncertain." These factors are beyond any one person's control, so it is therefore even more important for an investor to focus on things that he or she can control—such as maximizing tax savings!

Give us a call and we'll be pleased to perform a tax-savings analysis for you.

Best Regards,

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