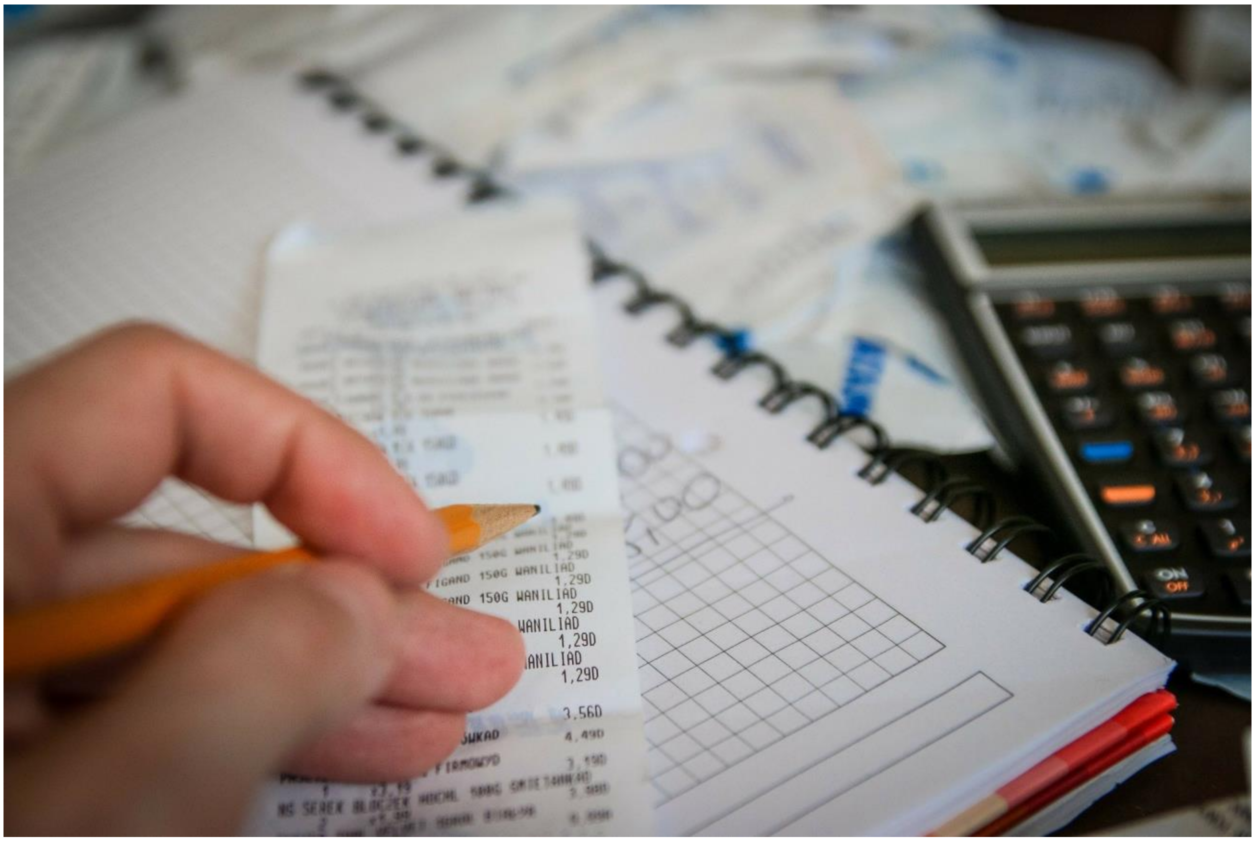
Three Tax Reducing Strategies for Retiring Aerospace & Defense Industry Executives Who Want to Keep Working

Part 3



Nearly every one of the executives I work with that have retired from the Aerospace & Defense Industry in the last five years have continued to work as consultants either as an employee or self-employed. After spending the last 30+ years as an employee, retiring executives who want to keep working may not know about these three tax reducing strategies available to them as self-employed business owners.

Strategy #1 – Reduce Your Payroll Taxes by Changing How You Get Paid

Strategy #2 – Defer Taxes on More Income by Creating Your Own Retirement Plan

Strategy #3 – More Tax Deductions

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There are several significant tax deduction options available to a self-employed consultant that would not otherwise be available as an employee. Below are three significant deductions that can make a big difference.

- Qualified Business Income Deduction
- Health Insurance
- Home Office

Qualified Business Income Deduction

One of the new items introduced by the Tax Cuts and Jobs Act (TCJA) of 2017 was the addition of the Qualified Business Income (QBI) deduction. This allows a deduction up to 20% of the qualified business income on taxes allows for eligible self-employed and small-business owners.

This deduction is available only for “pass-through” business income that is reported on your personal tax return. Eligible entities are sole proprietorships, partnerships, S Corporations and Limited Liability Corporations (LLCs).

For 2019, there is a limit on total taxable income that includes other income and not just business income. For singles, the limit is $157,500 and for joint filers the limit is $315,000. These limits increase in 2020 to $163,300 and $326,600 respectively.

What if your income is above these limts? Well, as a consultant, you are in luck. For certain businesses, congress created a Specified Service Trade or Business (SSTB) designation that includes consultants among other professions and increases the limits to $207,500 for single filers and $415,000 for joint filers in 2019. However, there are tests to determine the total amount that can be claimed so be sure to consult with a tax professional.

Health Insurance

If you are buying health insurance as an individual and not part of a group plan, your costs can be significant. But, as a self-employed business owner, medical and dental premiums for yourself, your spouse and other dependents are deductible business expenses. However, if you are eligible to enroll in your spouse’s employer’s plan, you cannot take the deduction even if you chose not to participate.

Premiums for Long Term Care insurance are also deductible but be aware of the special rules. Again consulting with a tax professional is a good idea.

Home Office

If you work from home, the IRS allows self-employed persons to deduct a portion of their mortgage or rent, property taxes, utilities, repairs and maintenance. The requirements are that the space be used “exclusively and regularly” for business related activities and the amount of the deduction is proportional to the overall square footage of the entire home. So, if your home office is 10% of your home’s space, then 10% of those expenses are deductible for the year. However, if you have repairs or updates only to your office space such as repainting, then the entire cost of the expense is fully deductible.

Alternatively, the IRS offers a simplified option that allows a $5 deduction per square foot of your office space, up to 300 square feet which is only $1,500. This option makes for easier record keeping but may end up with a lower deduction.