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Foreword

This book is prepared in response to questions raised by leading tax attorneys and investors regarding effective methods to plan their investments to pay minimum income tax with long-term growth in wealth.

The Objective. The first step is to clearly define the objective. Without a specified goal, success can only be an accident. For taxpayers, the short run objective may be defined as minimum income tax. The long range objective may be defined as substantial family wealth. In broad terms, wealth is defined in terms of life style and engagement in enjoyable activities. Asset maximization is *not* the goal.

Wealth may be defined in terms of social recognition, social rank, and your position in society. The following are the factors that determine social recognition:

Class- The amount and source of income

Status-Taste, selection of how money is spent

Power-Authority to influence the actions of others

In summary, financial success is determined not just by your income, but also by the selective taste and judgement shown by your assets, activities, and service to others. Ownership of *securities* has no leverage, no tax depreciation, and no tax credits. Ownership of real property and small businesses has financial leverage, tax benefits, and enjoyable activities.

Actions. The following actions are suggested:

Invest in real property, single family residences in high prestige areas.

Pursue transactions which result in Section 179 one-year depreciation.

Plan for non-recognition of capital gain on sale of your residence.

Own and direct an active business, preferably a sole proprietorship.



New Tax Law

On July 4, 2025, President Trump signed a new statute named *One, Big Beautiful Bill Act*, Public Law 119-21. The following are the new amounts for deductions, exemptions, and credits.

. The new **Standard Deduction** is available for the tax returns 2025 through 2928.n. For joint filers, the standard deduction is \$31,500 for 2025; for a single filer \$15,750. For over age 65, joint taxpayers add \$6,000 each to the Standard Deduction; for a single filer add \$2,000.

For 2025, the standard deduction is \$31,500 for joint filers (\$15,750 for single filers). For each taxpayer over age 65, \$6,000 is added to the standard deduction. For years 2025-2028, if the senior taxpayer's Adjusted Gross Income is over \$150,000 for joint filers (\$75,000 for non-joint returns), this \$6,000 addition to the standard deduction will phase out. The senior deduction starts to decrease with a *Modified Adjusted Gross Income* of over \$150,000 for joint filers; \$75,000 for single filers. The amount of decrease is calculated as six cents of every dollar over the threshold. For 2026 and later years, the standard deduction will be adjusted for inflation.

For 2025, the limit for *state and local tax* is \$40,000 (\$40,400 for 2026). For 2027, 2028, and 2029 the limit will increase by 1% per year. For 2030, the limit for state and local taxes will lower to \$10,000. This deduction is reduced depending on modified gross income over \$500,000 for 2025. This threshold increases with inflation through 2029. The limit of \$10,000 is effective after future threshold changes.

For 2025, the *nonrefundable child tax credit* is increased to \$2,200 per child, and future increases with inflation. For 2025, the *refundable* child credit is \$1,400, and future increases with inflation. Beginning in 2025, the increased income phaseout threshold is \$400,000 for a joint return (\$200,000 for non-joint returns),

For 2025, the **business income deduction**, 26 USC §199A, keeps the current 20% deduction. The deduction limit phase-in is \$150,000 for joint return (\$75,000 for non-joint returns. minimum deduction of \$400 is allowed for taxpayers who have at least \$1,000 of business income from an active business with material participation.

Mortgage interest deduction, 26 USC §163, extends the limit on home mortgage acquisition debt to \$750,000. Mortgage insurance premiums are counted as qualified residence interest. Equity loans are not counted as qualified mortgage residence debt.

For years 2025-2028, the Act provides **no tax on tips** of up to \$25,000 deduction or tips received by an individual in an occupation that customarily receives tips. This deduction begins to phase out when a taxpayer's Adjusted Gross Income exceeds \$300,000 for a joint return (\$150,000 for a non-joint return).

For years 2025-2028, the Act provides **no tax on overtime** of up to \$25,000 deduction for a joint return (\$12,500 for a non-joint return) on overtime compensation as reported on Form W-2 or Form 1099. This deduction is available for taxpayers to do not itemize deductions. This deduction begins to phase out when a taxpayer's Adjusted Gross Income exceeds \$300,000 for a joint return (\$150,000 for a non-joint return) .

For years 2025-2028, the Act authorizes a **deduction for interest on auto loans**. The deduction is for interest incurred after December 31, 2024. The interest must be for a loan secured by a lien on a passenger vehicle hat had final assembly in the United States. The act excludes interest on an auto loan from the definition of *personal* interest in 26 USC §163(h). This deduction is capped at \$10,000 per year and phases out when a taxpayer's Adjusted Gross Income exceeds \$200,000 for a joint return (\$100,000 for a non-joint return) .

The Act authorizes a **charitable contribution deduction** for a taxpayer who does not itemize deductions, of up to \$2,000 for joint filers (\$1,000 for single filers). For taxpayer who itemize deductions, the amount of charitable deductions is reduced by 0.5 % of the total charitable contribution amount.

The Act increases the amount of a **Section 179 deduction** to \$2.5 million, reduced by costs that exceed \$4.0 million.

For firms with research outlays after December 31, 2024, the deductions for research expenditures may be expensed in one year. For firms with research outlays after Dec 31, 2021 and before Jan 31, 2025, the deductions may now be over either one or two years. For small firms with annual gross receipts of under \$31 million, the one year deduction is authorized for outlays after Dec. 31, 2021. For research conducted *outside* the United States, the outlays must be capitalized and amortized over 15 years.

For 2026, the *gift tax exemption*, 26 USC §2010, is \$30 million for joint filers (\$15 million for single filers). Future year amounts increase with inflation.

The *alternative minimum tax exemption* reverts the phaseout exemption to \$1 million for joint filers (\$500,000 for non-joint filers). The exemption amount is 50% of the amount that the alternative minimum taxable income exceeds the threshold amount. The prior exemption amount was 25%.

The Act *terminates clean energy tax incentives*. Tax credits for *clean vehicles* terminate after Sept 30 2025, section 25E, 30E, 45W, 30C. Tax credits for *energy-efficient homes* terminate Dec 31, 2025, Sec 25C, 25D. It is foreseeable that the next president will proceed with credits for electric vehicles and solar and wind electricity generation.

Research Credit for research performed within the United States, businesses can now deduct 100% of their domestic research costs in the year they are incurred. Taxpayers can elect instead to capitalize these costs and amortize them over a period of not less than 60 months. For research performed outside the United States, these expenditures must still be capitalized and amortized over a 15-year period. Prior law, for 2022-2024, authorized businesses to capitalize and amortize domestic research expenses over five years (or 15 years for foreign research). The new 2025 law provides new transition rules for the prior years 2022-2024.

For small businesses, the firm may elect retroactive relief and file amended returns for 2022, 2023, and 2024 to fully deduct domestic research costs. Large businesses can deduct the remaining unamortized balance of their domestic R&E costs from 2022-2024 entirely in 2025, or they can spread that deduction evenly over 2025 and 2026. By definition, *small* businesses have annual gross receipts of \$31 million or less for the prior three years, and *large* businesses have annual gross receipts of over \$31 million for the prior three years.

Significantly, amounts paid or incurred for development of *software* are counted as research expenditures, 26 USC §174. Qualifying expenditures for research activities include the following types of costs:

- Wages for employees involved in research
- Costs of supplies and materials used in research.
- Software development costs.
- Overhead costs, rent and utilities for research facilities.

Current Economic Issues

Uncertainty. Recent presidential decisions on tariffs and immigration have created new financial and economic problems. The executive power of the presidency must be balanced with the power of the Congress and the authority of an independent Judiciary. Without this effective checks and balances, excessive presidential power would easily degrade to a dictator with unrestricted authority. Power corrupts; absolute power corrupts absolutely.

The Justice Department and the Congress must enforce their decisions to maintain a balance of power. New laws are required to make void any act or decision by any federal official that shows a *conflict of interest*.

Within the years of your long-range plan, new elections are expected to result in federal government changes so that current issues with tariffs, immigration, and unrestricted presidential power will disappear. The following events will influence personal investment decisions and tax planning.

1. The results of future *elections*. A primary factor will be whether a sufficient number of Senators and Representatives will be elected to control extreme Presidential decisions.

2. Future Supreme Court *decisions* which may limit the power of the President to control federal funding for universities, research, vaccines, and government functions.

3. The scope and duration of regional wars which require high defense expenditures for new drones, ammunition, and missile defense systems. The required costs will affect the U.S. budget expenditures, the total national debt, and increased income tax to support the outlays.

4. Advances in artificial intelligence, which is expected to increase productivity and result in major investments in new chip design and production.

Excise Taxes. It is foreseeable that new tax laws will be necessary to increase taxes for extremely wealthy taxpayers. New forms of federal taxation, such as an excise tax on the *value of assets owned* may be necessary to prevent major increases in the national debt.

Foreign Trade and Tariffs. Efficiency and national wealth results from minimum obstacles to international trade. The current increases in tariffs are expected to result in higher prices and scarcity of critical materials.

Global warming. Current trends in energy sources and use will result in unacceptable economic damages. The sea level rise by 20 feet is expected to result from a 2 degree increase in global temperature. The uncertainty is whether the 20 feet rise will occur in 20 years or 100 years, depending on major changes promptly required. The primary causes of global warming are Carbon Dioxide (CO₂) and Methane (CH₄). These greenhouse gasses trap heat in the earth's atmosphere preventing the greenhouse gasses from escaping into space. Although European nations have agreed to minimize global warming, the US has cancelled the tax incentives for electric vehicles, solar power, and wind power, resulting in foreseeable severe consequences. Future elections will determine whether sufficient actions are made to reverse extreme global warming.

Clean energy is a necessary goal. Major tax credits and investment incentives are now required to redesign energy sources and energy use. Increased tax incentives are required. Current technology allows safe and clean *atomic power*. Solutions are known for disposal of radioactive waste. Redesign of the national electricity system will allow higher efficiency.

Aging Population. For many developed nations, population projections demonstrate a shift to more persons over age 65, and fewer persons in the labor force. Recent changes in the measurement of inflation and current increases in the medical insurance deduction will result in a decline in social security income.

New Laws Required

Significant new legislation is necessary to improve access to large mortgage loans and to control bank malfeasance.

Federal guarantees for large mortgages. Bank underwriters may decline to approve large mortgage loans, despite high income and high credit scores. For example, taxpayers with a high credit score, cash reserves of over \$1.2 million, annual W-2 wages of over \$980,000, and 20 percent down payment on property priced at \$3.6 million may still be rejected by bank underwriters.

A common reason for some bank rejections is that when wages are paid through RSUs (Restricted Share Units), there is delayed recognition of income by the taxpayer, 26 USC §83(c)(1). Typically, under a five- year employment contract, an RSU becomes vested and converted into publicly traded stock over a five-year period. Typically, bank underwriters hold that future RSU income is *uncertain*, even though the RSU income is foreseeable and probable.

A new federal statute is needed for federal loan guarantees for mortgage loans of up to \$8 million. Under current economic conditions, with high property prices, there is a need for federal guarantees to reduce the investment risk for very large mortgages.

Bank Misconduct. In violation of federal law, it is typical for a bank to require escrow tax payments that exceed the payments due over the ensuing twelve months, 12 USC §2609(a)(1). For intentional misconduct, the civil penalty is over \$1 million per day, 12 USC §5565(c)(2)(C).

New federal laws could authorize private parties to sue lenders for violations of federal banking laws. Existing federal bank statutes do not authorize *private* prosecution of gross negligence by banks. Relevant court decisions hold that 11 USC §2609 does not authorize a private right of action. See: *Hardy v Regions Mort. Inc.*, 449 F.3d 1357, 1360 (11th Cir 2016); *Choudhuri v. Wells Fargo Bank*, 2911 WL 5079480 (N.D. Cal. Oct 25, 2011). See: *The Real Estate Settlement Procedures Act of 1974 (RESPA)*, 12 USC §2601 et seq.; Regulation X, 12 CFR §1924.

Limits on Credit Card Interest Rates. New federal bank laws are required to reduce interest rates, loan fees, and late fees. For a typical loan portfolio, the yield from late charges and fees will allow a profit for the bank even if there is no profit from the interest. A new federal statute is required to limit credit card interest rates. The current practice allows very high interest on credit card debt. A federal law to limit interest on unsecured debt would stimulate the economy.

Revisions to Current Bankruptcy law. Based on major lobbying efforts by banks, on April 20, 2005, Congress authorized major changes in the existing bankruptcy laws. The statute, The Bankruptcy Abuse Prevention and Consumer Protection Act of 2005 (BAPCPA), Pub. L. 109-8, serves the interests of the banks and creates obstacles to debtors. The current laws allow banks to have oppressive economic power that prevents economic growth.

1. Discussion of Tax Minimization

Investment Strategy

It is feasible for a prudent investor to reduce federal income tax and even to pay zero income tax. A prudent taxpayer can qualify for research tax credits, one year depreciation, and other incentives that Congress designed to stimulate the economy. A taxpayer has the fundamental right to minimize taxes. As stated by Judge Learned Hand:

... nobody owes any public duty to pay more than the law demands, 159 F2d 848, 851.

... Anyone may so arrange his affairs that his taxes shall be as low as possible; he is not bound to choose that pattern which will best pay the Treasury; there is not even a patriotic duty to increase one's taxes. 69 F2d 809, 810, *aff'd* 293 U.S. 465.

... [The] legal right of a taxpayer to decrease the amount of what otherwise would be his taxes, or altogether to avoid them, by means which the law permits, cannot be doubted. 293 U.S. 465, 469.

Plan Ahead. Correct decisions require emphasis on prediction of future events and risks. In error, many decisions are based on historical data and prior decisions instead of the paradigm shifts in circumstances and the necessary focus on *future* results. It is a fundamental error to drive a car by looking through the rear view mirror. Prior events typically exhibit different circumstances, so that the circumstances are not sufficiently similar. Prudent decisions require focus on futurity, to see the foreseeable future effect of current actions.

Establish a sole proprietorship. Pursue business activities that match your interests and skills. Pursue software research and artificial intelligence. Pursue biochemistry research. Pursue publishing. Pursue auto leasing. Pursue rehabilitation of collector cars. Pursue any activity that results in income.