Wander CPA

Tax-Saving Tips

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Selling to a Related Party Can Kill Your Tax Losses

If you sell property to a related party, you may not deduct your loss on the sale. And this gets worse. The loss you cannot deduct no longer belongs to you. It moves to the related party, and that can really complicate matters. This brings up two questions:

1. Who are your related parties?
2. What happens to the loss that the government took away from you?

Related Parties: The tax code says that your related parties include, among others, you and your spouse, brothers and sisters, parents, children, grandparents, or grandchildren. Additionally, it includes corporations and partnerships in which you own, directly or indirectly, more than 50 percent (e.g., stock, value, profits interest).

The constructive ownership rules expand your network of related parties because you are deemed to own what you and your family members own, and if you are a shareholder or partner, you own a proportionate share of the stock owned by the corporation or partnership.

Where the Loss Goes: Your tax-deductible loss is lost to you when you sell to a related party. But here's a possible (although often unlikely) silver lining: the loss you lost travels to the buyer, and the buyer can use that loss to reduce any taxable gain on a later sale of the property.

For example, say you incur a loss when you sell your business vehicle to your brother. You can't deduct the loss. If your brother later sells the vehicle for more than he paid you, then he can use your loss to offset his gain. If he sells it for less than he paid you, then he can't deduct the loss.

You need to know that the related-party loss-disallowance rule exists, so you don't mistakenly make your tax-loss deductions disappear. If possible, don't sell to a related party. Instead, sell to a remotely related person, such as an in-law, aunt, niece, cousin, or employee of the business.

Arguing with the IRS: You Need Tax Authority

When you have a dispute with the IRS, you'll need to show that the law supports what you did if you want to win your argument. Support directly from the Internal Revenue Code is the best proof. You can also use Treasury Department or other IRS interpretations of the Internal Revenue Code to support your position, such as Treasury Regulations, Revenue Rulings or Revenue Procedures, and Announcements and Notices.

We strive to find your deductions in one of the sources above. A private letter ruling, while not authority unless you requested it for your situation, can prove useful to us because it shows the IRS reasoning on a specific situation.

What's interesting is that you can't rely on IRS form instructions, IRS publications, the IRS website, or the

Internal Revenue Manual. These are not authority according to both the IRS and the courts. We use them to help us find that higher authority that we can then apply to your situation.

Buying a Business with Co-Owners? You Need a Buy-Sell Agreement!

If you are buying a business that will include more than one co-owner, you need a buy-sell agreement. You have multiple reasons to put a buy-sell agreement in place and not one reason not to have a buy-sell agreement.

A well-drafted agreement can do these valuable things for you:

- Transform your business ownership interest into a more liquid asset
- Prevent unwanted ownership changes
- Save taxes and avoid hassles with the IRS

There are two types of buy-sell agreements: (1) cross-purchase agreements and (2) redemption agreements (sometimes called liquidation agreements).

When you enter into a cross-purchase agreement, it's a contract between you and the other co-owners. Under the agreement, a withdrawing co-owner's ownership interest must be purchased by the remaining co-owners when a triggering event occurs, such as death or disability.

When you enter into a redemption agreement, it's a contract between the business entity itself and its co-owners (including you). Under the agreement, a withdrawing co-owner's ownership interest must be purchased by the entity when a triggering event occurs.

Heavy Vehicle + Deductible Home Office = Major Tax Savings

You can reap major tax savings with the heavy vehicle and home-office combo. The heavy vehicle produces quick deductions. The home office that qualifies as a principal office eliminates commuting miles, and such an elimination can dramatically increase your business-use percentage of vehicles.

For example, say you bought a $50,000 vehicle that you use 60 percent for business. Your depreciation and expensing elections apply to $30,000. But if you can increase your business percentage to 90 percent with a tax code–defined principal office in your home, your base for tax deductions increases to $45,000—that's a $15,000 increase, and you did not spend a penny or drive a mile farther to capture it.

How to Protect Your Gambling Winnings from the IRS

Your gambling income is taxable. And—just as important—it's reportable. The good news is that you can offset your gambling winnings with your gambling losses provided you keep good proof of those losses. The IRS and courts expect you to maintain a "contemporaneous gambling diary."

You face specific rules for a gambling diary depending on the type of gambling. For example, with slot machines, the IRS advises that you record the machine number, date, and time played to support your winnings. Often, you can find the machine number clearly displayed on the machine. If not, simply ask the casino operator for the machine number.

If your gambling losses exceed your winnings, you get no deductions for your net loss. Further, the net loss does not carry forward. It simply disappears.

As you can see, you need to know how the rules work if you gamble. Don't reach the end of the year with lots of income on Form W-2Gs and no appropriate tax records for your losses.