MORE ON HSA

	Contributions →	Growth →	Withdrawal
Regular accounts	Taxed	Tax-free	Taxed
401ks, IRAs	Tax-free	Tax-free	Taxed
Roths	Taxed	Tax-free	Tax-free
HSAs	Tax-free	Tax-free	Tax-free

What are the eligibility criteria for an HSA? (You need an HSA compatible health insurance plan)

First, you have to be covered under a **High Deductible Health Plan.** This is a health insurance plan with a higher than typical deductible amount. The IRS defines what qualifies here. Specifically, your HDHP must have a *minimum*deductible of $1,400 for individuals or $2,800 for families. The max out-of-pocket allowed by law for an HDHP is $7,050 for individuals or $14,100 for families. These figures are for 2022.

Also, you cannot be covered by Medicare or any other health insurance that is not HDHP (e.g., through your spouse), and you can't be a dependent on someone else's tax return.

You can buy an HSA health insurance plan on the private market, in most Affordable Care Act health insurance exchanges, and many employers also offer HSA compatible health insurance plan options. Bottom line: they're not hard to find.

These are the key eligibility criteria, but IRC section 223(c)(1) has an exhaustive list.

What are the contribution limits for an HSA?

The annual HSA contribution limits are:

- Individual: $3,650
- Family: $7,300
- 55+ catch up: $1,000

Special rules for HSA catch-up contributions

First, the catch-up age of 55 is different from the one for retirement accounts, which is usually 50.

Also, you just have to turn 55 by the end of the year: even if your 55th birthday is on December 31, you can still contribute a full extra $1k for the entire year.

If you're married and both of you will be 55 by end of year, then each of you can contribute an extra $1k. But note that, because an HSA is in an individual's name, catch-up contributions must be made in your own name. There's no such thing as a "joint" HSA, even for family coverage. That means if *you* are 55 but your *spouse*is not, and your spouse contributes $7,300 for family coverage to an HSA under his / her name, then you'll have to open a new, separate account under your name for the extra $1k catch-up contribution.

If both you and your spouse are 55 or over, you'll need two separate HSAs to contribute the max $9,300. There's no way to do it with just one account.

Lastly, the $1k catch-up is fixed and not adjusted for inflation.

You do NOT get a state tax deduction in these states:

- Alabama
- California

- New Jersey

These states don't even have state income tax, so there's no HSA tax benefit to be had anyway:

- Alaska
- Florida
- New Hampshire
- Nevada
- South Dakota
- Tennessee
- Texas
- Washington
- Wyoming

What are qualified healthcare expenses?

Qualified healthcare expenses are generally any expenses that would have been eligible for the **medical or dental expenses deduction**, plus expenses for prescription drugs. They include insurance premiums if you're on a COBRA plan or if you're receiving unemployment benefits. They also include Medicare (not Medigap) premiums and long-term care insurance (subject to deduction limits).

Examples of qualified expenses:

- Acupuncture

- Alcoholism treatment
- Ambulance services
- Artificial limb or prosthesis
- Artificial teeth
- Birth control pills
- Braille books/magazines (portion of costs)
- Car adaptations (for persons with disabilities)
- Chiropractors
- Christian Science practitioners
- Contact lenses (including saline solution and cleaner)
- Crutches
- Dental treatment (x-rays, fillings, extractions, dentures, braces, etc.)
- Diagnostic devices (such as a blood sugar test kit)
- Doctor’s fees
- Drug addiction treatment
- Eyeglasses (including eye examinations)
- Eye surgery (including laser eye surgery)
- Fertility enhancement (including in-vitro fertilization)
- Guide dog (for visually-impaired or hearing-impaired)
- Hearing aids and hearing aid batteries
- Hospital services (including meals and lodging)
- Insulin
- Laboratory fees
- Lactation assistance supplies
- Prescription medicines or drugs
- Nursing home
- Nursing services
- Operations or surgery
- Psychiatric care
- Psychologist
- Telephone equipment for hearing-impaired
- Telephone equipment for visually-impaired
- Therapy or counseling
- Transplants
- Transportation for medical care
- Vasectomy
- Wheelchair
- X-rays

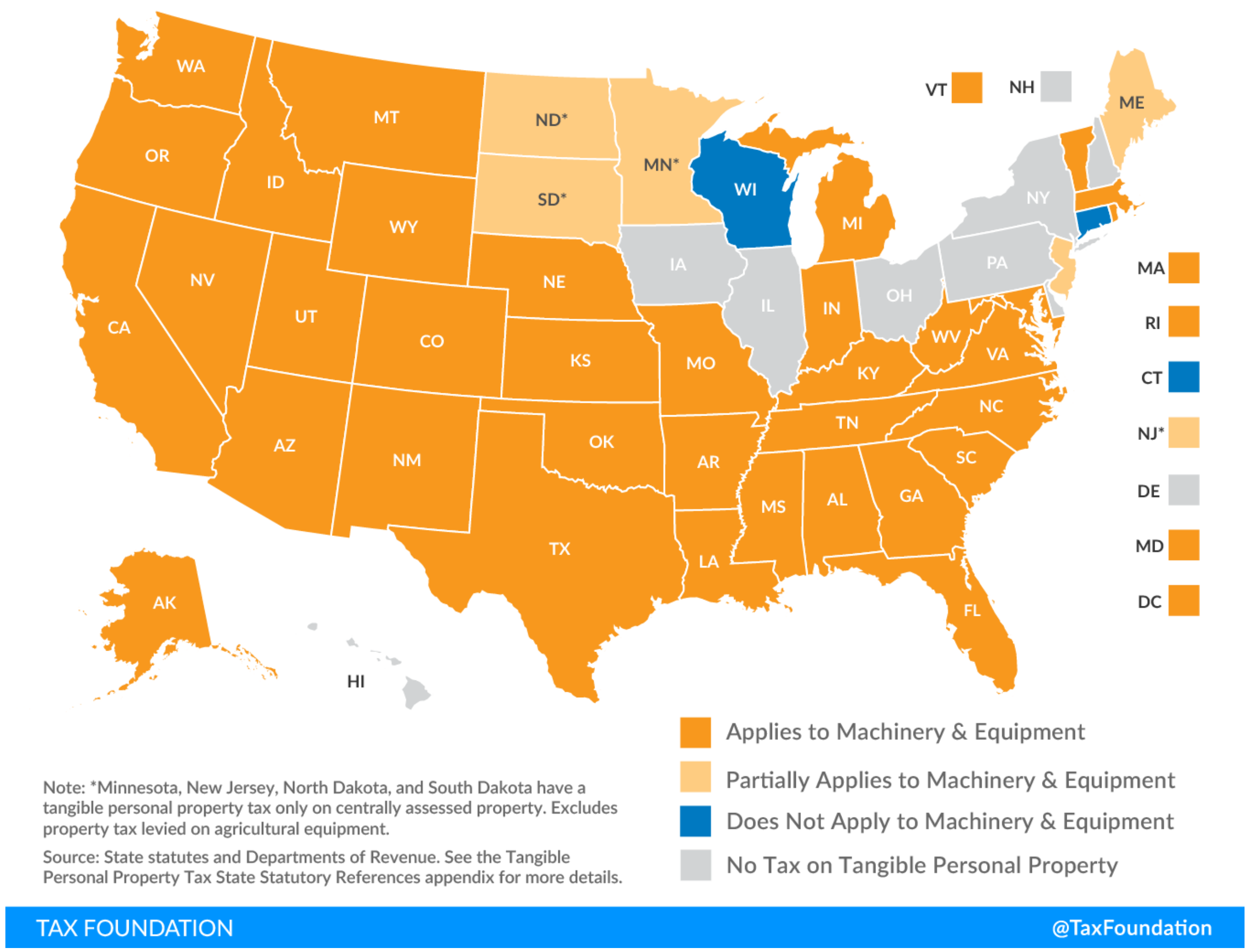
Tangible Personal Property (TPP) Taxes

Tangible personal property (TPP) is property that can be moved or touched, such as business equipment, machinery, inventory, furniture, and automobiles.

Taxes on TPP make up a small share of total state and local tax collections, but are complex, creating high compliance costs; are nonneutral, favoring some industries over others; and distort investment decisions.

TPP taxes place a burden on many of the assets businesses use to grow and become more productive, such as machinery and equipment. By making ownership of these assets more expensive, TPP taxes discourage new investment and have a negative impact on economic growth overall. As of 2019, 43 states taxed tangible personal property.

States with a Tangible Personal Property Tax on Machinery & Equipment



Excise Taxes

Excise taxes are taxes imposed on a specific good or activity, usually in addition to a broad consumption tax, and comprise a relatively small and volatile share of total tax collections. Common examples of excise taxes include those on cigarettes, alcohol, soda, gasoline, and betting.

Excise taxes can be employed as “sin” taxes, to offset externalities. An externality is a harmful side effect or consequence not reflected in the cost of something. For instance, governments may place a special tax on cigarettes in hopes of reducing consumption and associated health-care costs, or an additional tax on carbon to curb pollution.

Excise taxes can also be employed as user fees. A good example of this is the gas tax. The amount of gas a driver purchases generally reflects their contribution to traffic congestion and road wear-and-tear. Taxing this purchase effectively puts a price on using public roads.

Estate and Inheritance Taxes

Both estate and inheritance taxes are imposed on the value of an individual’s property at the time of their death. While estate taxes are paid by the estate itself, before assets are distributed to heirs, inheritance taxes are paid by those who inherit property. Both taxes are usually paired with a “gift tax” so that they cannot be avoided by transferring the property prior to death.

Estate and inheritance taxes are poor economic policy because they fall almost exclusively on a country or state’s “capital stock”—the accumulated wealth that makes it richer and more productive as a whole—thus discouraging investment.

Both taxes are also complex, hard for jurisdictions to administer, and can incentivize high-net-worth individuals to either engage in economically inefficient estate planning or leave a state or country altogether.

For these reasons, most U.S. states have moved away from estate and inheritance taxes.

A Quick Guide To Real Estate Tax Loopholes

Keep It In The Family

This is more of a loophole to the above qualifiers. If you are married and your spouse is a real estate professional, losses claimed from that person's real estate business may be used to offset overall income. This includes income generated from another industry. Please note that only one income needs to qualify, and that overall real estate work hours may not be combined from two individuals.

Depreciation

Considered a capital expense, depreciation is the method of accounting that spreads an asset's cost across multiple years. It therefore protects other income from being taxed, reducing your tax bill. It must be taken over the expected life of the property. If you're renting out a property, the IRS says it can begin to depreciate once it is ready and available for rent. Depreciation is considered a paper loss, which means you don't have to spend any money in order to deduct it as an expense.

Avoid Capital Gains Tax

After purchasing your flip, move right in to take advantage of one of the government's more generous tax exemptions. If you can manage to maintain the home as your principle residence for two of the following five years, you can make a quarter million in tax-free profit as an individual, a half million as a couple.

Earn Off Your Rental Income To Avoid Payroll Taxes

If you've got rental properties, the income they deliver will not be subject to social security or Medicare taxes. These FICA taxes are costing you 7.65% off of your earned salary. Cut out the paycheck, and you lose the cut. It's not a major shave, but adds up over time.

Refinance

You can sell your investment to raise capital, or you can refinance under the right terms. In the latter case, you save big on taxes. The cash you get from the refinance is borrowed, so not taxed. Just be sure to go low on the rate, and long on amortization, and get a rate that's fixed.

Take Advantage of Capital Gains Tax Rates

The rates for the long-term capital gains tax can change, but tend to remain lower than income tax rates. If you sell real estate strategically as part of a long-term plan, you can take advantage of these rates when they are at their lowest. The best part about taking advantage of the loopholes written into our tax code is that the money you save can be used to further your real estate growth. It's a win-win situation, and worth weaving into your long-term real estate investment strategy.

Sources:

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- https://www.biggerpockets.com/renewsblog/2014/09/25/your-complete-guide-to-the-real-estate-professional-tax-loophole/
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750-hour requirement

The person claiming real estate professional status must spend at least 750 hours participating in "real property trades"—or the real estate business, as defined by the IRS. This time is calculated on an annual basis from January 1 to December 31, not on a weekly or monthly basis. For example, it would be perfectly fine for Jamie to spend no real estate time in January through March, as long as she spends at least 750 hours for the rest of the year from April through December.

Activities that the IRS states meet the professional status requirements include:

- Development or redevelopment
- Construction
- Property acquisition
- Rental management
- Operations
- Brokerage trade or business.

How to Document Your Real Estate Professional Activities

How exactly do you prove your rental real estate activities to the IRS? As with many things in the tax world, it all comes down to documentation. The IRS requires that the taxpayer keep a log of their hours of services during the year. There is no specific method required—you can keep appointment books, an online calendar, a time-tracking app, an Excel workbook, or even log your hours in a notebook.

The IRS *does* require that the time log be kept using a consistent method for the entire year. They don't like time logs that are partially kept in a notebook, partially in Excel, and partially on a calendar. The time log should also be kept and maintained throughout the year—the IRS gives more weight to time logs that are completed while you are incurring the time versus time logs created after the fact.

Make sure to include:

- The date
- A description of the activity performed (as specific and detailed as possible)
- The duration of the activity
- The related property address.

For example: *03/01/19 • Met with the property manager to view repairs proposal • 3321 Main St rental • 2 hours*

From an audit protection perspective, it's recommended that your time log includes activities that can be verified and substantiated. In the event of an audit, the IRS may ask to review your time log. They may also take sample selections for testing. If your time log is made up of, say, 200 logged entries, they may randomly choose 10 entries and ask you to prove you spent time as stated. Keep copies of emails, phone calls, text messages, receipts, and car mileage to prove your case in the event of an audit.

Real Estate Professional Tax Benefits

A number of strategies can decrease your taxes once you qualify as a real estate professional. Start with cost segregation to accelerate the depreciation on your new rentals. Accelerated depreciation lets you push the expenses into the current year by breaking out the components of each rental.

When Jamie and Darin used this accelerated depreciation schedule, their projected net tax loss from their rentals became $67,000. Here is a comparison of Darin and Jamie's tax bill with and without real estate professional status:

	Taxes Without Real Estate Professional Status	Taxes With Real Estate Professional Status
Total Medical Income	$400,000	$400,000
Rental Income After Expenses	$18,000	$18,000
Accelerated Depreciation	($85,000)	($85,000)
Net Rental Loss	($67,000)	($67,000)
Total Taxable Income	$400,000	$333,000
Total Federal and State Tax Rates	45%	45%
Total Taxes	$180,000	$149,850
Total Annual Tax Savings		**$30,150**

**This is typically how accountants write charts. All numbers inside the parenthesis are a loss or negative*.

By claiming real estate professional status for Jamie, the $67,000 of rental losses can offset the income Darin makes from his medical practice. This helps them save $30,150 of cash—in just the first year!