

What is the MTAX series?

The MTAX series is a group of tax issues commonly encountered by mariners. Our clients know they're not leaving our office without understanding a concept they didn't grasp when they entered. This series starts with basic taxation and continues to examine many of the complex tax planning tools available at your disposal.

Our firm advocates education.

Why?

This is a team effort. There isn't a form or spreadsheet that can encompass all of the advantages and pitfalls of the Internal Revenue Code. You need to have a basic understanding of what triggers income. The more you know, the more we can do together.

Doesn't this make sense? Don't we do this in the industry? A captain of a vessel may not know the specifics involved in reversing a main propulsion engine while maneuvering. He had better know the type of propulsion system he's dealing with. Imagine someone transitioning from an electrical Z-Drive system, to a more antiquated system where the engine needs to be stopped, fuel and air cams reversed, and started again. Add in the fact that the latter system is only going to provide 6 starts or so in a short period. This is one way the industry ends up in the news. It is vital to understand the general principals involved in the operation of the vessel for all crewmembers. From flushing bleach down the toilet to tank entry, everyone needs the basics.

Taxes are no different. We have tailored and designed our software to "catch" many different tax triggers before they occur. We send clients ideas tailored to fit their tax status. But without your taking an active interest, we can only help so much.

Ex – A new client came in last year to have her taxes done. She owns several rental properties and a primary residence. She lived in her primary residence for 2 years and then sold it. She wanted to utilize a §121 exclusion which allows us as taxpayers to exclude \$250,000 in capital gains from the sale of our primary residence from income if we meet certain criteria. Generally, you need the property to be your primary residence for 2 years in order to take this exclusion. Her real estate attorney had told her that she'd be able to take the exclusion, no problem.

*After chatting with her, I learned that the property was acquired in a like kind (§1031) exchange. This is pretty common with rental properties. You effectively trade one property for another and defer recognizing (showing on your taxes) gains until you sell the second property acquired. **Properties acquired in a like kind exchange need to be held for 5 years to qualify for the exclusion I mentioned.** This mistake cost her an additional \$50,000 dollars. Yes **fifty-thousand dollars.** Making matters worse, the money from the sale had already been spent.*

I'll say this again and again – Business deductions are helpful. Yes as mariners there are a plethora of deductions you may qualify for. This is one small part of the big picture. If we concentrate on the year at hand and only the year at hand, we're missing the big picture planning that's incorporated by most every millionaire I meet.

I perform tax consults for several estate planners. Before starting this, if you had asked me what the “millionaires” did for a living I would have guessed sales, marketing etc... The majority of millionaires I meet are teachers. Why? They're big picture planners. They look ahead and understand the basics.

When I was a cadet at SUNY, Elmo Baumgart said several things over and over and over again. One of these things was that “you always purge the boiler before relighting. NEVER try and relight off of the refractory!” He said it in every ship systems class, and every cruise I went on with him. Why? Because you could blow the boiler up! When I was sailing 2nd on a T-6, I pretty much tackled the 3rd when he tried to relight off the refractory. Elmo knew that there were certain things we needed to know that could literally save our lives.

Luckily taxes haven't killed any of my clients (knock on wood) but some of the things I have seen have seriously brought tears to my eyes. And many of them could have been avoided!

It starts with your first job. It continues to marriage. It progresses to family. One goal is retirement. Security is all important. I am honored to help. I love this industry. We work with our clients. We understand your needs. We bring in experts in different planning fields to help tailor your plan. We work with your trusted advisors to help meet your long term goals. Our secret sauce is education, avocation, support, and most importantly knowing our clients.

I look forward to working with you throughout the years. Nothing feels as rewarding to me as a client retiring having fulfilled their goals.

So read on, enjoy, ask questions (that's where many articles come from), and I'll keep rolling the mains.

JM