**PEP 72 Edited\_Transcription**

[Daniel Hill] (0:05 - 22:53)

Welcome to the official property entrepreneur podcast with myself, Daniel Hill. On this Strip Back podcast, we're going to be going behind the scenes with special guests to provide insight and inspiration on all things business, life, and the actual realities of high performance in practice. Success and failure are both very predictable.

We hope you enjoy. Hello, hello, hello. It is Tuesday, it is time for the next official property entrepreneur podcast episode.

And today I'm going to take you through one of the most fundamental things you need to build if you want to genuinely achieve financial independence and have a strategy and structure that enables you to not only make money today and get paid and live a good life and have a good income, but to create wealth for the short, medium, and long term within a structure that ensures that when you're in business, it's not just about turning up, running on the treadmill, smashing out of the park.

It's actually about not winning the game, but staying in the game and ensuring that every month your net wealth is actively and consistently increasing that makes all the hard work of being an entrepreneur actually worthwhile. And this is part of a bigger model and strategy called the financial fortress. So the financial fortress is the only model and strategy and setup you need to create genuine long term generational wealth and financial independence through being in business, in property, and being a property entrepreneur or any entrepreneur.

So the financial fortress is a really big topic and we teach it on our program, we teach on advanced, we teach it on our incubators, and we teach it on the board. And this is a decade's worth of work to get all the way from step one up to step 10. And there's all different layers of cash flow, profit, asset, savings, investments, diversifications, tax breaks, tax savings, and ring fencing, and making sure that regardless of what happens to your business, regardless of what happens to you personally, and regardless of what happens to the economy, you are financially independent, financially secure, and you're set up for the long term.

In this podcast, I'm going to take you through the basics today. And this is basically the setting up of an element of the financial fortress, which is basically your holding company. This is step one of the financial fortress.

This is the absolute bare minimum basics, which every single entrepreneur should have in place. And once it's in place, on the 28th of the month, you will increase your net wealth every month without question. And it'll enable you to get the basics set up to build the levels of your financial fortress as you progress.

If you have not already listened to episode 24, which is rich, bad, wealthy, good, that talks about the wealth creation strategy and how you move through the three levels. You can't skip the gears, start at the beginning, move to the middle, and then finish at the top. And that's what you want to do.

In order to do that, you need the financial fortress set up. And in this podcast, I'm going to talk about the holding company. So the holding company is step one of building your financial fortress.

And this is a structure where the aim of the game is not to win the game. The aim of the game is to take money off the table. The aim of the game is to stay in the game for as long as possible.

And financial independence through this model is an obligation. It's not an option. What we're going to do here with the financial fortress is set up what we call a holding company.

Now, I just want to put a disclaimer here. This is not tax advice. It's not corporate structure advice.

This is strategic advice about wealth creation. And you will need to get your solicitor and or a tax accountant to work with you on this to set up the right structure, group structure, tax framework that's right for you. But I'm going to talk to you about this strategically with regards to what to do, how to set it up, and how it works in practice.

So there's four steps, a few top tips. And this is the basics of setting up your first holding company. The structure you need to generate wealth every single month, every single year.

And have the basics in place to enable you to start understanding the difference between personal money, business money, and have the discipline to create wealth every single month. So what we're going to do is a financial fortress and a holding company is in the simplest form, a company that sits external to your trading businesses. And it's basically like a savings account, a war chest, a holding company.

It's where we're going to store our capital. Now it doesn't matter if you're currently making 20 grand a year or you're currently making 2 million pound a year. The concept with this model is start early, start yesterday, get the ball rolling.

And as soon as the wheels are in motion, you will very quickly start to see the net returns of wealth creation by using this model. The holding company is basically a separate limited company outside of your existing trading businesses that holds shares and it holds cash or capital, holds shares and it holds capital. And from there, you then invest it, you distribute it, you loan it, loan it out.

It doesn't, it's not a trading company. This holding company, again, this is not corporate structure or tax advice. It's strategically a business that sits above the rest of the other companies.

And every month you draw your money up to this holding company so you know that it's safe or rather, again, you need to be aware of the sort of liabilities that do and don't apply to a holding company. But basically you're drawing money up to a holding company so it's there, it's safe, it's ring-fenced and it's not getting caught up in all the noise, all the mess, all the expenses and transactions of day-to-day business. The holding company sits above the top and then the other companies you have, properties, portfolios, investments, every single month pay into the holding company.

So if you imagine a holding company at the top, your trading companies, your portfolio companies, your operating companies underneath, and then every month we're going to send money up to the holding company, which is part of our financial fortress, on the 28th of every month and then that starts to create a slush fund, an amount of capital, a war chest, basically like a savings account which we then go on to build the other levels of the financial fortress out from.

So how do we do this in practice? This is the basic, this is the absolute, absolute, absolute basics. So the basics are, we set up a new company, which is going to be our war chest, our hot holding company, our financial fortress.

And step one is to set this company up, speak to your tax accountant about what SIC codes you're going to use. I use SIC codes 68209 and 681000, they're the two that I use because they're mainly to do with property. And you open your holding company with the suitable SIC code and then what we want to do is put that above the rest of the group.

And then what we do with this, again, I need to put disclaimer in, you need tax advice and legal advice on the right thing that's for you, but strategically, step two is the holding company then owns the shares of the other companies that you start or you own. And this is for a reason, which I'll explain in the final step, step four, it then owns the shares in the companies that you own underneath it. And the holding company at the top doesn't have any overheads, it doesn't have any expenses, it doesn't own any property.

It just owns shares in other companies that you own or you invest in and it holds capital. And what we're going to do is once you've got the shares in, once it owns the shares in the other companies, it means you can then draw money up to the holding company. Now it doesn't necessarily have to own the shares.

In step four, I'll tell you about the other ways you can draw the money up, but the aim of the game is that every month on the 28th of the month, you're paying money into the holding company at the top and it's there, it's away from the noise and it allows you to build a pot of capital to go and invest in. Step three, what we then do is underneath it, we start our local companies or our independent companies or our SPVs. And for example, I have my holding company at the top and then underneath I have a range of other companies.

So I have my investment company where I buy single lets, I have a number of trading companies like a portfolio building company, a training company, a marketing company, a maintenance company, a construction company. I also have shares of companies that I invest in. So I'm an angel investor.

If I own shares in other companies, they are owned by my holding company. And then what you end up with is this group structure where all of the activities happen in a local level underneath the parent company. But every month on the 28th, each of those businesses, every single one of those businesses is paying money up to the holding company as a management fee or a dividend, which means it doesn't matter if I have a great month or a bad month, a noisy month or a quiet month, the businesses are doing great or the businesses are doing bad.

As long as those payments are made every month on the 28th of the month, it's not about winning the game. It's about staying in the game. And on the 28th of the month, all those transactions fire up to the holding company, open my phone, go into my bank account.

And then I've got transactions that have come into the holding company, build their capital up. And obviously as you initially, it might be 50 pounds. When you start to scale up, it might be 50 to 100,000 pounds a month.

But once it's there, it's set up, the capital's up there and it's all part of the game. It makes it all worthwhile. So underneath we have these individual companies.

I have a company that owns my single X company that owns the schools that I'm buying, a company that owns my development company, individual SPVs that own individual developments, and they all pay up to the holding company. And then step four is the final step is setting those up every month as either management charges or invoices or dividends. Now if your holding company, your financial fortress at the top, owns shares in the local companies, the SPVs, you can move the money up.

As long as the companies are making profit, you can move the money up via dividends, which is unlimited. So as long as the corporation's tax is paid in either the local company or the holding company, I would recommend paying it in the local company so you don't have to worry about the taxation up in your holding company. As long as the company's making profit, it can pay dividends up every month, 28th of the month, up to the top company.

And then although the local company, the trading company, is noisy, it's frustrating, it's hard work, it's got challenges, whatever, all the things that come with being an entrepreneur, it all makes it all worthwhile on the 28th of the month when you look at your holding company, part of your financial fortress, and you see those transactions going up, you've stayed in the game for another month, your net wealth has increased, and you've ring fenced some money that was worthwhile doing the work for the last month.

So via dividends, you pay your corporation tax in one of the companies, and then you can move the money up unlimited. Or if it doesn't own the shares, or the money's coming from another company that perhaps you don't own any shares in, you can move that money up into your holding company as well, up to $85,000. You could do more than that, but it means you would need to become VAT registered, and I personally don't have any of my holding companies VAT registered.

I move the money up through dividends from all of my other companies. If there's any companies that I've made money in that shares aren't owned in the holding company, then I do it via invoicing. And equally, when I do other profit activity, like a joint venture, or I lend somebody some money from some...

Or rather, a joint venture, or I do a piece of work for somebody, maybe I speak at an event for somebody, or I sell a company for somebody, I broker a deal for somebody, I do some consultancy for somebody, because I don't need that money to survive, and it's not cash flow money, it's profit. I invoice that money straight from Daniel Hill Holdings. All of my consultancy fees, my non-exec board fees, my brokering fees, my M&A fees, go straight into the holding company via invoice, and you can do up to 85,000 pound a year there.

And also, there is other ways, for those of us that are making or invoicing more than that, there is other ways to work around it, but you need to speak to your accountant about that. And then what you've got is a structure where you've got loads of noisy businesses, costs, overheads, employees, mistakes, market fluctuation, but the aim of the game is the holding company at the top, every single month, from every single company, every single venture, every single part of profit work you do, goes into it, and you end up with a nice pot of capital at the end of every month, at the end of every year, and you can use that to go forward and invest. This is the number one step, and the basic, and the fundamental of wealth creation, having that holding company, which is basically the beginning of your financial fortress, at the top of the group, and on the 28th of each month, transferring the money up, either via dividends or management charges, every month, so that all you've done is stay in the game, get the money out there, and then you start to create net wealth that grows, increases every month, and then eventually compounds as you invest it. Step five is the final step, is setting up those standard orders. Holding company at the top, and then a standing order, or a management charge, or an invoice from every single company, every single property, every single portfolio, up to the holding company, 28th of the month, that's the day, that's the success, ring the bell on the 28th of every month, and your net wealth will increase without question.

So a few top tips. The first is, this really is something you want to start yesterday. You might be listening to this thinking, that's fine, but I'm only making a couple of grand a month, or it's a startup, it's not even making a couple of thousand pound a month yet.

I would say it's good practice to start yesterday, and even if your standing order is 20 pound a month, every company that you're involved in wants to be paying this management charge or this dividend up to the holding company, regardless how much it is. And I guarantee you, you'll start off with 20 pound, 50 pound, 1,000 pound, and before you know it, your confidence will grow, your net wealth will grow, and very quickly, as your mindset locks into the fact that we're playing the long game, not the short game, and we're focusing on being wealthy, not rich, those transactions will very quickly change from 50, to 100, to 1,000, to 5,000, to 10, to 20, to 50,000 pound a month, and the money moves up to the holding company, and it all makes it worthwhile. Just remember, as an entrepreneur, all of this can turn to dust tomorrow. If you've got a trading business, an operating business, most people just roll the money up, roll the profits on, next year will be the best year, the year after we're going to get the money out.

That's not really how to play the game. You want to make sure that from day one, you're drawing money up, drawing money out, and if it does all turn to dust tomorrow, it doesn't matter, because the only company you're really interested in is your holding company. All the other businesses you own and operate are actually projects when the sun's shining, make hay, but it doesn't matter to you if they do get hit by economic issues, because every month you've made your money and taken it up.

The second tip would be probably don't, nowadays, probably don't call it a holding company. When you start your new company, whatever the SIT code is, probably don't call it a holding company, because some banks, in fact, many of the banks, most of the fintechs don't like them being called holding companies. You could call it your first name, second name investments, or your first name, second name assets, or your first name, second name war chest, whatever you want to call it, but probably top tip two is probably don't call it a holding company.

The third is when you set this up and you've got your holding company at the top, and then you start to create new SPVs underneath, special purchase vehicles underneath, or operating companies underneath. If you're going to go and open a new bank account, you're probably now using fintechs like Starlin's, Monzo's, the tides of this world. I find them much easier.

Old school banking is probably on its way out now. One of the things you'll find is because the company, your SPV, your operating company, your prop co, opco, whatever you're setting up, because it's part of a group structure, you might find that the fintechs don't like, they say, no, unfortunately, we can't open a bank account for this company because it's part of a complex or a group structure. Now, it is part of group structure.

It's not necessarily complex, but there is a way around this. And what you do is in order to enable you to open a bank account is you go on companies house for your new company that's owned by your holding company, go to the POSC, the person of significant control. And because the shares are owned by your holding company, you want to, because your shares are owned by the holding company, by default, companies house will also put the POSC, the person of significant control, as the holding company.

And it's actually that that triggers the fintech to say, we're not interested in opening a bank account for this because the company is part of a group structure. And it's actually, it's person of significant control as a company, not an individual. So the way to get around that is to go on companies house or get your accountants go on companies house and just change the person of significant control from your holding company to your personal name.

And you can swap it back afterwards if you want, but that will enable you to get, go through the criteria to open the account. And then you can crack on and get those, get those businesses trading. And then finally, and this one's really, really important.

It's something I literally will nail my flag to the post for is the holding company at the top, which is your war chest. It's your financial fortress. It's where your net wealth is increased every month.

Apart from your end of year tax bill, you do not want to have any transactions coming out of this company. So some people say, I've got a holding company, I've got some single lets in there, you know, I pay my, my husband out of there. That's not in the truest sense of a financial fortress.

What a holding company is for. You want it to be completely clean. The only thing that goes in to a holding company and a financial fortress is dividends and invoices.

That's it. That's the only thing that goes in. And then the only thing that comes out is your end of year corporation tax liability.

If you have one, I, however, would recommend, unless you've got invoices coming in, which most of us probably have, unless you've got invoices coming in to pay the corporation tax at the local level, at the child company rather than the parent company. And then your accountancy fees. They're the only two payments you want coming out once a year, accountancy fees and corporation tax.

That's it. No phone bills, no overheads, no car expenses, no insurance policies, no salaries, nothing. All you want going in is money, is capital.

And all you want coming out is corporation tax, accountancy fees, and then loans. You will then loan your money out of your holding company into the local companies or into your investment companies or into SPVs or if you're doing other joint ventures or ventures where you need to move money out, things like that. So hopefully at the highest level, that gives you the basics.

And that is what you need to do to start building your financial fortress. Set up your holding company, get the structure and the accounting strategy right with your solicitor and your accountant. And then on the 28th of every month for dividends or management charges, every single business you're involved in pays up to your holding company.

And then also any miscellaneous work that you do that's normally profit work, nothing to do with cash flow, nothing to do with salaries, might be a consultancy fee, a speaking fee, if you're a board member for somebody and you don't rely on the income, all of those go up to the holding company, keep the capital there. And then from there, you can use that to build your net wealth, start to compound up the gains and start to move through steps one to three on the financial fortress. As we progress over the coming weeks and months, we're into the new financial year now.

I will share more insight and direction on how to create wealth and build out your financial fortress. It is a decade's work to complete it. In fact, it's probably even two decades work if you're going to make the most of, if you're going to have a seven-figure pension, a seven-figure ISA, seven-figure SMP, all of these different strategies we use.

But for now, just focus on the basics, get the holding company open, and then on the 28th of every month, as long as you stay in the game, you're increasing your net wealth, you're drawing money up to your financial fortress, and you'll start to reap the rewards of being in business all day, every day, rather than rolling things up for an elusive tomorrow that never actually comes. So I hope you enjoyed that. Best of luck at setting up your holding companies, and I'll come back to you in future episodes with how to build out your financial fortress, how to achieve wealth, health, and life by design using the Property Entrepreneur Blueprint.

And I look forward to seeing you on the next episode next Tuesday. So subscribe, share, join me on social media, and I look forward to seeing you on the next one. Thank you for listening to the official Property Entrepreneur Podcast.

Trust you found value and insight in the topics discussed. And as always, very much welcome your comments, feedback, and any suggested guests or topics you would like us to consider. Please give us a review and let us know what you think.

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