

INCORPORATE & GROW RICH!

How To Cut Taxes 70% & Protect Your Assets Forever!

By: C.W. "Al" Allen; Cheri S. Hill; Diane Kennedy

Eight Legal Business Structures

- **I – The Sole Proprietorship:** "In essence, you (as the owner of that business) and your business are one and the same. Your assets are the business' assets, and the business' assets are your assets. The same applies for liabilities. Your debts and the business debts are one and the same. If your business is sued, it is the same as if you are sued. Conversely, if you are sued personally, your business is sued. Everything you own and everything your business owns are up for grabs in a lawsuit. The same applies regarding the IRS. You file one tax return because all the income is yours. You pay self-employment taxes (15.3 percent at the bottom of Schedule C) before any deductions."
- **II – The General Partnership:** "All is operated as if it were one person. This is like a sole proprietorship, except with twice the exposure. Each is responsible for everything each of you own, owe, do and have done. You have joint liability with your partners. This means you are completely liable for everything, whether you are involved or not."
- **II – Limited Partnerships (LPs):** "The LP has limited partners who typically have neither liability for business activities nor management responsibilities. These limited partners are liable (or at risk) for only the amount they have invested in the LP. The general partner, having responsibility and full liability for the activities of the partnership, provides full direction and management of the LP. The Limited Liability Partnership (LLP) is designed to offer an existing professional partnership, such as an engineering firm, the ability to be transformed to an LLP without the need to dissolve an existing partnership."
- **IV – The Corporation:** "A corporation is a separate legal entity governed by state law. It operates through its bylaws as well as through resolutions written and adopted by the shareholders and directors. Corporate formalities (the flow of activity and paperwork) must be followed to maintain a corporation as a separate legal entity. The state of incorporation has its own statutes, rules and regulations from which a corporation must operate."
- **V – C vs. S Corporation:** "While the C corporation is essentially the premier wealth-building entity in the United States for the vast majority of business enterprise, the S corporation does prove to be superior in the three primary ways:"
 1. The S corporation offers advantages and an alternative to the professional service corporation (PSC). Individuals can disperse income to a lower personal rate.
 2. As business activity expands for individuals, the need for multiple corporation strategy is often considered. An S corporation as an alternative.
 3. The third way offers relief to the tax burden of the W-2 wage earners. The S corporation can incur losses from business start-up and/or ordinary business operations. These losses can be applied toward the earnings of the shareholders.

- **VI – The Professional Corporation:** “There is a select group that the IRS considers ‘professional.’ These professionals in the fields of health, veterinary services, law, engineering, architecture, accounting, actuarial science, performing arts or certain consulting services are admired so much that when incorporating, they are required to file as a professional service corporation. This PSC category is also ‘admired’ with its own flat tax category of 35 percent.”
- **VII – Nonprofit or Not-For-Profit Corporations:** “All nonprofit corporations have three characteristics in common:
 1. They are designated as “nonprofit” when organized.
 2. Profits or assets cannot be divided among corporate members, officers, or directors as corporate share dividends.
 3. They may lawfully pursue only such purposes as are permitted for such organizations by statute.

There are three categories:

1. Public benefit (such as museums, schools and hospitals)
 2. Mutual benefit (such as cooperatives, trade or professional assoc.& clubs)
 3. Private benefit (such as tax-exemption-benefit-seeking organizations – low-cost housing developments and the like)
- **VIII – The Limited Liability Company:** “The LLC is a relatively new form of business organization that offers advantages and benefits not otherwise obtainable when operating an S corporation or partnership. The LLC combines the corporation characteristics of limited liability for all investors with the income flow-through attributes of a partnership. The LLC is attractive when the limited liability of all members is important.” Page: 23-25

“The sole proprietorship and the general (or 50/50) partnership have many negatives. The corporation offers many advantages.” Page: 26

“Most corporations operate as C corporations.” “The wealthy use C corporations.”

“The rich have corporations and use their benefits and advantages for maximum gains and security.” Page: 27

Why a Corporation Helps You Save Taxes

Individual

- Your Income (Your Tax Base)
- Tax at 28 percent (average)
- Expenditures
- Savings

Corporation

- Income
- Expenditures
- Tax Base
- Tax at 15 percent (under \$50,000 net income)
- Savings Page: 29

"Not one in a thousand Americans realizes the fortune that could be saved. You can deduct the 'obvious' items, but you can also deduct much more, such as:"

- Home repair under certain conditions
- Home insurance under certain conditions
- Some or all meals/clothes under certain conditions
- Your heat, phone and other utilities under certain conditions
- Health insurance
- Travel expenses
- Retirement plans
- Dependent care plans
- Auto insurance
- College funds

"By turning your home into a business corporation you can completely reverse the old way of looking at it. You can stop viewing your house as an endless money pit and start seeing it as your financial command post – the center of your wealth-making dreams." Page: 30

Seven Secrets of Success: Use your Corporate Advantage!

"Basically, anything that promotes your business is a deduction. It is necessary for the new business owner to shift his or her entire way of thinking, so that you look for ways to create deductions." Page: 41

Study the Following Secrets of Success

#1 Find items that provide benefits for you, without tax, and still are deductible for the corporation.

#2 Look for ways to make your normal expenses deductible.

#3 Use the fiscal year-end option that is special for corporations.

#4 Establish a good accounting system to make sure you get all of the deductions that should be coming to you.

#5 Document!

#6 Make use of the lowest tax rates at both the individual and corporate levels.

#7 Become familiar with the character of income – portfolio, passive and ordinary.

"Note that all charitable contributions are limited to 10 percent of your corporation's net income. However, if you can change the character of the contribution to promotion (say you get free advertising in a newsletter in exchange for the gift), then it is fully deductible and is not subject to the net income rule." Page: 45

"One of the biggest advantages of C corporations over all other forms of business structures is that they are not flow-through entities. That means that a corporation pays its own tax on its own income." Page: 70

"The C corporation is the only truly separate 'legal person.'" Page: 78

"Don't pay yourself dividends from your C corporation."

"Look for all the ways a corporation can pay you using legitimate tax deductions."

"Always check your tax strategy with experienced tax advisors." Page: 82

"If your business will incur significant start-up and ongoing losses. Unlike the S corporation, you cannot take advantage of losses in the C corporation to write off your personal W-2 income. If you are only a W-2 wage earner, the C corporation will not help you with your personal taxes."

Requirements of a Proper C Corporation

- It must be run with and take on the attributes of a real business
- You must have a true business profit motive
- You must keep annual minutes
- You must keep true accounting records, and, if computerized, use a business accounting software program such as Business Works or QuickBooks Pro
- You must have taxable income now or in the foreseeable future that you desire to shelter Page: 87

Cost

"The C corporation is a more involved structure to set up and maintain. If you are running a true business with true income, then the tax savings will well outweigh the investment. But notice the word 'if.' If you are not dedicated to having a business, then the expense of the C corporation is really just that -- another added expense."

"Do not start a C corporation to own real estate."

"Verify that the tax benefits will outweigh the added cost and maintenance requirements needed to run a C corporation." Page: 88

Quorum:

"For a shareholder meeting, this is the minimum number of shares required to be represented (in person or by proxy) and that are entitled to vote to conduct corporate business. Usually this is no less than one-third of the shareholders. Refer to your bylaws for specific corporate policy."

Proxy:

"This is a written authorization of a shareholder directing another (the proxy holder) to vote the shareholder's shares in the manner directed by the shareholder." Page: 102

"As an employee of the business you have access to many corporate benefits that are not allowable if you operate as an independent contractor or only show yourself as an officer and director."

"The ultimate goal is to take a low salary so only the minimum amount is withheld. You then make up the difference by letting the corporation pay for all those wonderful tax deductible benefits, such as monthly car allowance, dependence care, health insurance, medical/dental costs, home office rent and the like."

"Note: Since you are an employee of a corporation, your salary will be subject to any state income tax requirements in the state in which you reside. However, this should be minimum because of the salary you took."

"If there is no profit, dividends cannot be paid. When dividends are paid, they are taxed twice: once at the corporate level and again in the hands of the shareholder. If the board of directors decides not to pay an dividends, but reinvest back into the company, these funds are called 'retained earnings.'" Page: 109

Where There's a Will Heir Will Pay!

"Elvis Presley when he died, his estate was valued at more than 10 million dollars. More than 3 million were paid in federal estate taxes and state inheritance taxes and almost 2 million were spent on administrative, executor and legal fees while his estate was in probate. By the time his debts and expenses were paid, less than 3 million was left for his heirs." Page: 123

"If you married, estate tax is most likely to be an issue when the second spouse dies because when the first spouse dies, everything left passes tax-free. But if the second spouse owns all of the couple's property, and it is worth more than the estate tax exemption, estate tax will be due. So if you and your spouse own more than \$1 million, you seriously need to think about using a family living trust, making gifts during your lifetime, or using other legal tax-avoidance strategies."

"In other words, don't let Uncle Sam become your biggest heir!" Page: 124

"Do you realize that the biggest chunk of money you will ever put in one place is the money you hand over to the US Government? If you were to make \$50,000 a year over a 30 year career, you would pay about \$600,000 in Federal, State and local taxes."

"The average person will give up \$1,000,000 in taxes in their lifetime! That's sad, especially when you realize that most people die without ever amassing \$100,000 in cash." Page: 126

"Average wages have stagnated since 1973, something they haven't done since the Civil War. Did you know that the average family income is substantially lower today that it was back in 1989? In fact, 95% of all Americans retire in poverty after working for 45 years!"

"Out of 100 people that start working age 25, by age 65...1% are wealthy, 4% have enough money to retire, 3% are still working (they can't afford to quit), 64% depend on social security, friends, or charity and 29% are dead."

"If you retire at age 65 and live to 85, you'd need \$240,000 saved up to be on a fixed income of only \$12,000 a year!" Page: 128

What are homestead exemption laws?

"Homestead laws were generally designed to protect the home from creditors, provides the right of occupancy given to a surviving spouse, minor children, and unmarried children of a deceased owner and also afford reduced property tax treatment. When people use the term 'homestead exemption' they may be referring to the tax exemption or reduction, or the exemption from debts or execution for the payment of debts."

"The exemption does not mean that you cannot lose your home to creditors or that a lien cannot be placed on the home. If you borrow money on your home like most people do, the mortgage holder can foreclose and the exemption has no effect."

"Specific homestead laws vary from State to State."

"Homestead exemption forms are usually available from the tax assessor in your county." Page: 132

When you die, your money will go to 2 of these: Decide which 2!!!

- Attorneys (Courts)
- Taxes
- Family
- Charity

Only Three Ways to Pass Your Wealth Page: 147

- By Law: Joint Ownership with Right of Survivorship
- By Will: This the legal process (Probate) to validate a Will and handle the transfer of property to your heirs after all debts and taxes owed are paid."
- By Contract: This includes Life Insurance, Annuity contracts and Trust Agreements

"A will doesn't provide any protection if you become incapacitate. Because a will can only go into effect when you die."

"The most popular of all trusts in America is the Revocable Living Trust. It is nearly universal in its appeal and effectively resolves serious problems instead of allowing your estate to be subject to the State and Federal taxes, fees, and long delays." Page: 151

Federal Estate Tax: "Married couples may DOUBLE their exclusion from Federal Estate Tax through a Living Trust's ability to preserve both tax credits. Single grantors keep their \$1.2 million exclusion and a married couple may obtain a \$2.4 million exclusion from this 37-55% tax. That's huge!" Page: 152

Living Will – “Better known as the ‘Right-to-Die Clause.’ This document says in effect that, if your life is being sustained solely by artificial means, it is your desire – (a decision made when you were competent) – that the plug be pulled.”

Durable Power of Attorney for Health Care – “This is the second and more powerful ‘medical’ document. This lets you choose the person you want to make ANY medical decisions for you – including life support – if you are unable to make them yourself. It is legally valid and enforceable. And it keeps the court from interfering in these private decisions.”

“Another ancillary documents should include a Durable General Power of Attorney (for decisions other than health care); Appointment of Guardian (minor children); Appointment of Conservator (who is responsible if you become incompetent); Assignment of Personal Effects (everything other than real property); Anatomical Gift (Organ Donor).” Page: 154

“Make sure you have all the ancillary documents included with your Living Trust to satisfy every potential contingency – now and in the years to come.” Page: 155

Separate Your Personal and Business Credit

Two Ways to Obtain Business Financing

“There are only two ways to obtain business financing. One is by using your social security number and your personal FICO score to personally secure every business loan.”

“The other is to use your business credit rating and get financing without having to personally guarantee every loan.” Page: 171

“The biggest business financing mistake that almost every business owner makes is simply not knowing how to properly setup their business to have its own business credit rating. It is easy to do, so why do less than 5% of all business owners ever do it? Because, no one teaches you how.”

“Having an excellent business credit score is a key that will unlock a vast amount of business financing opportunities to you.”

Building a Positive Business Credit Profile

1. “Its own tax identification number”
2. “Your business must have a physical office space (even if it is a home address), a separate directory listed telephone line and fax.”
3. “The required city/county/state business licenses and if applicable, a tax resale license.”
4. “Income Statement Balance Sheet and Cash Flow Statement are the 3 essential scorecards. Accurate financials and professionally prepared tax returns are required.”
5. “Trade References.”
6. “Bank References”

7. "Equifax, TransUnion, Experian. You will want to establish a presence with these companies."
8. "Business Credit Cards and Lines of Credit." Page: 172-173

"To learn more about the Sage Business Credit Builder Program visit www.sageintl.com."

Page: 174

What is Intellectual Property?

"Building a business starts with an idea. An idea by itself has little value. But an idea which has been sufficiently developed to merit intellectual property protection has value. Intellectual property is valuable to a business in part because the IP provides leverage in funds acquisition, licensing, and market-place competition. Angel investors, venture capital firms, banks and pension fund managers, all want to see that a funding proposal is backed by intellectual property. Potential licensees want to know that they are paying for IP protection from competitors who are no licensees. Intellectual property serves as the basis for litigation, the ultimate aggressive form of business protection."

"The various forms of intellectual property – patents, trademarks, copyrights, trade secrets, licenses and other contracts – are business assets."

"In simple terms, intellectual property is a product of the human intellect that has commercial value. The commercial value comes from the ability of its owner to control its use." Page: 178-179

Copyrights

"Copyrights protect literary, artistic, musical, and other 'creative' works. The owner of a creation protected by copyright law has numerous rights once the creation is 'fixed in a tangible medium of expression' (memorialized)." Page: 180

Trademarks

"Trademarks are words, names, symbols, or devices that a business uses to identify and distinguish its goods and services from those of others. Trademarks prevent consumer confusion regarding a source of goods and services and the affiliation of products. Trademarks enable a business to protect its reputation by allowing businesses to prevent others from using identical or confusingly similar trademarks for identical or similar goods and services. Registration is not required for trademark rights to exist, but grants the owner numerous additional rights and benefits." Page: 181

Patents

"Patents are a government-granted, limited monopoly (right to exclude others) for a new invention, design, or solution to a problem (process)."

Hold Your IP in an LLC

"Most IP generates passive income (royalties) so it only makes sense. Also, if you have a company and you create a lot of Intellectual Property it's smart to hold the property in a

separate entity so in case the main company gets attacked or goes bankrupt, the IP is separate and can continue to be licensed or sold to someone else." Page: 182

Individual Retirement Accounts

"Individual Retirement Accounts, or IRAs, are special accounts with tax advantages to help you save for retirement. The longer your IRA is sheltered from taxes, the more it will grow in accumulated wealth."

There are two types of IRAs:

1. Traditional IRAs allow you to save money without paying taxes until you withdraw it. The money you put into the IRA can lower your taxable income and grows tax-free while it's in the IRA account.
2. Roth IRAs offer a slight twist on the traditional IRA. There are differences in the tax advantages and who can open a Roth IRA. The most attractive part of Roth IRAs is that the money is withdrawn without paying federal taxes. Page: 185

Real Estate Investing With Your IRA

"Investing in real estate through an IRA opens up a tremendous range of possible investment choices for individuals who are knowledgeable about real estate investing. This is a way to diversify your retirement portfolio to hedge against the cyclical changes in the economy, stock market, financial institutions, and government-based investments. Page: 187

"Were you even aware that your IRA could invest in real estate, trust deeds, joint ventures, and private stock offerings?"

What your Plan or IRA can do:

- Purchase, sell or exchange any investment property as long as the property was never owned by you or any other disqualified person.
- Construct improvements on property owned by our Plan or IRA.
- You and your relatives, entities you own, and other individuals may own undivided interests along with your Plan or IRA. The purchase of this property I this scenario must be simultaneous to avoid a prohibited transaction.
- You may lease or rent the property to someone who is not a disqualified person.
- You can receive property from your IRA or Plan as a distribution.
- You may roll property over from one Plan to another.
- Property may be exchanged with non-disqualified persons or entities. Page: 188

"There are still many ways for your Plan or IRA to participate in a real estate investment without a full cash capital investment. For example, your IRA can co-invest with other parties. You could also have your IRA, and other parties as members of an LLC to buy and sell property."

Self-Directed Custodians

"The better solution is to transfer all the assets of your IRA to a 'true' self-directed custodian. This is usually a bank or trust company that serves as the custodian who will follow your

instructions and invest your retirement funds in those investments you desire to make, not investments that are going to earn the custodian a commission."

This is how easy it is:

1. You establish an IRA account with a 'true' self-directed IRA custodian.
2. You request the current IRA custodian to transfer the assets to the self-directed IRA custodian.
3. Now all of the assets are in the 'true' self-directed IRA custodian's account and ready for you to invest them in the manner you want.
4. This is not a taxable event. Page: 189

Simple IRA – "Savings Incentive Match Plan for Employees ('SIMPLE' plan) can only be established by employers that have 100 or fewer employees who receive at least \$5,000 in compensation during the preceding year."

SEP-IRA – "Simplified Employee Pensions (SEP) are established for employers to make contributions to IRAs of the employee." Page: 191

Conclusion

- "As you can see, it's not money that makes people financial successful it's time."
- "Make sure that financial documents are true to your wished and beneficiaries are consistent."
- "The rich are taking their advice from professional financial advisors. The poor are getting their advice from Money magazine. Regularly consult with financial and tax professionals." Page: 193

Financial Statements

"There are three basic forms of financial statements. First, the balance sheet. This is a statement that shows the resources and claims against those resources at a given period of time. In other words: the assets (what the company has) and liabilities (what the company owes). Since the statement needs to balance (hence the name 'balance sheet'), the difference between these two amounts is show as equity."

"The second statement is an income statement (or profit and loss). This is the financial statement that most people easily recognize. It shows income and expenses for a period of time—for example, the twelve months ending December 31."

"The third statement is the cash flow statement. The cash flow statement is not needed for preparation of the tax return, but it is a useful statement for management purposes. It shows cash inflows and outflows due to operations, financing and investing activities." Page: 231

Debits and Credits

"These are the lifeblood of an accounting system. They are the fundamental components of the double entry system of bookkeeping."

"The double entry system of bookkeeping was invented by a Franciscan monk Fra. Luca Pacioli, in 1494."

"Remember, it's called double entry bookkeeping; therefore, there must be at least two accounts impacted and the debits must equal the credits." Page: 237

Conclusion

- There are three types of financial statements:
 - The balance sheet shows assets, liabilities and equity at a point in time.
 - The income statement shows income and expenses for a period of time.
 - Cash flow (profit and loss) shows where cash comes from and goes to in a period of time.
- The balance sheet equation can be divided into two parts, drawing a line through the equal sign.
 - To increase on the left side – debit
 - To decrease on the left side – credit
 - To increase on the right side – credit
 - To decrease on the right side – debit
- The only tricky thing to remember is that expenses reduce equity and income increases equity.
- Your chart of accounts should follow a specific order:
 - Assets, liabilities, equity, income, expenses

The Rule of 72 "Eighth Wonder of the World"

- Take the interest rate you are getting on your investment
- Divided it into the Number 72

The answer = the number of years it take for your money to double. Let's use 6 percent, 12 percent and 18 percent interest rates.

How to Apply the Rule of 72

- Determine the amount of money you wish to invest each year.
- Determine the rate of interest you wish to receive.
- Determine the number of years you intend to let your investment grow. Page: 253

Upstreaming Income and Asset Protection Strategies

Nevada, Inc

Home State, Inc.

"Nevada, Inc. can provide the following services and may others for Home State Inc."

*Purchasing

*Independent Contractors

*Sales Agents

*Equipment Leasing

*Lending Money

*Research/Development

*Factoring Receivables

*Consulting Services

*Advertising

*Marketing

"The state of Nevada does not impose any taxes on a corporation, and the annual filing fees are minimal." Page: 265

How Does Upstreaming Work?

"You form two corporations. One is the exposed corporation and the other is a non-exposed corporation." Page: 266

"Each company had its own checking account. Each company had its own address. Additionally, they made sure that their Nevada corporation had a true Nevada presence, which includes:"

- A telephone listing in a Nevada telephone directory
- Corporate headquarters in Nevada with a legitimate street address in Nevada (not a P.O. Box, unless it is in rural Nevada where postal delivery requires a P.O. Box. In this case, you still need a physical address.)
- Nevada state business license (and local business license, when applicable)
- Corporate bank account in Nevada
- Paper trail showing real transactions occurring between Nevada Inc, and Home State, Inc. Page: 270

"With dual or multiple Nevada corporations you can:"

1. Reduce or eliminate state corporate taxes
2. Reduce federal corporate income taxes
3. Protect your assets so that they are very secure
4. Pass your assets to those you wish without taxation Page: 277

Conclusion

"Dual and Multiple Corporate Strategies..."

- Dual and multiple corporate strategies are tested and proven to be legal when they are set up and used properly.
- You can greatly reduce state income tax, reduce federal income tax, limit liability and better protect your assets.
- You can defer taxes to a distant future and use the government's money (via savings in taxes) to provide for a comfortable retirement.
- The tax code is the key to wealth. Instead of approaching it as a liability, learn how to take advantage of all the things you can do to enhance your ability to create wealth. Page: 278