

**Dan Breslin:** Welcome to the REI diamonds show with Dan Breslin. Your source for real estate investment jewels of wisdom. [music] Alright, welcome to the REI Diamond show Scott, how you doing today?

**Scott:** Fantastic thanks for having me on.

**Dan:** Cool. So I'm in Chicago, listeners know that. Where about you tuning in from right now?

**Scott:** Yeah, we're headquartered out of Austin, Texas. I'm in my homes in the Southern Utah. Right now it's the perfect season for mountain biking and hiking out in Zion National Park. So love to be here this time of year.

**Dan:** Sweet. Yeah you got a great plant set up. I think some of the audience members have probably seen. I did like a cameo on the printer for one of my episodes in the back of the Bonsai when it was flowering for another guy, the wealthy gardener who came on and it was a good book, right? It was kind of a Rich dad poor dad book, but maybe with a little more of like here are the actionable items to get yourself a 40 or 50 unit residential portfolio that at the end of 15 or 20 years, you're sitting pretty with 200 grand a year coming in, right? So it was a good episode. Maybe we'll link to that in the notes but reminded me of that to see the the incredible garden that you have got in the background there.

**Scott:** Yeah, man, I love having my plants around. I feel like they give me a little bit of energy throughout the day.

**Dan:** Nice. Scott, so for listeners, would you mind giving us maybe the reader's digest version of the evolution of your business real estate and law career and then sort of what the business model is today?

**Scott:** Yeah and so my company is Royal legal Solutions but I got started in real estate when I was in law school. I bought a commercial property and auto repair and transmission repair shop for the back taxes. And I end up flipping the business in the building upon graduating to graduate from law school without any debt. And I thought that was going to be a hotshot litigation attorney. So I took a job suing insurance companies in a law firm. Turns out insurance company's business model is collecting premiums and denying coverage, especially when things get expensive. And then that's what attorneys does, they sue them whenever they do that. So, get first-hand experience about how does the whole game of insurance really work and how it's important for us to have insurance, but also have additional protection in place.

But the whole time while I was working as an attorney there, I continued by real estate and I scaled my own real estate portfolio until I was making more money doing real estate and I was being an attorney. It took me about like a year and a half. I wasn't sleeping a whole lot at those times in my life, and I didn't need a lot of money, right? I wasn't married, didn't have kids and I was like, hey man, I've hit it. I've hit my financial freedom. I was like I'm golden, but then I ran into the problem and I think a lot of people run into which is like wait shouldn't I be structuring this inside of like LLCs and should I be using any of trust to hold my assets and my company's anonymously? And what should I be doing with all of my taxes and my estate planning, and my

insurance? And why do I want to be doing all that? How's that all suppose to work?

So, I did what everybody does and I was like, well, I'll try to read the books and I'll try to contact professionals. And so I did all of that, and I realized that nobody really have a complete system we'd put together. So I had to put one together for my own. So I built my own team of people because I was like, well, I want, I had the financial freedom but I wanted the time freedom. And the only way I can get there is if I built a team. If I studied for myself to understand how to do it for myself and then built a team of people that do it for me on basically managing my wealth for me.

It was great, I finally had everything that I wanted and I was traveling a ton and living a great life. And as I came back in living inside the states, a lot of my friends real estate Investors and asked me like hey man, how are you doing? What is he doing? How are you living this lifestyle? What is going on right now? And it's like, well, here's what I built. And this is how it all works. And they're like, well, can I get in on that? Can you take on more people and help me build this thing? So I was just kind of helping people out, getting them into the things that I'd figured out for myself. And eventually when I was like, hey, you should go in this BiggerPockets podcast and go just share with people about asset protection. It's one part of whether it's some of the stuff you know. And I didn't think anything was going to come of it. So I gave up my personal email and phone number into it.

And what happened was I was getting 30 to 40 phone calls a week from investors all over the country. They were like, hey man, I really need help on asset protection and how all these other pieces are supposed to put together. So then that's where I realized that whatever you want to call, that higher power in life was really tapping me on the shoulder and says, hey, this isn't all about just hanging out on the beaches and have a good time. You need to be of service to other people, help them be able to walk the path that you've walked and get them to that place of being secure and having the true freedom and protection in place for keeping what they've work so hard to be able to build. And that's Royal legal Solutions is now turning and I, we serve all 50 states, we have over 2,000 clients that we've helped that are Real Estate Investors and we have about 30 people of attorneys, CPAs, paralegals and support staff.

**Dan:** Cool. So before we dive into the asset protection because that's probably going to comprise the bulk of our conversation, asset protection maybe the tax structures. I want to take a little bit of a detour if we could. So you're buying a property in law school. I don't know, you're 25, 28 years old. So yeah, and you decide. I mean, did you decide, hey I'm going to go out and find some kind of business to pay for this or was it like walk me through. How did you find that deal, right? What was your thought process before you started to look for that deal? Maybe even how did you find or have the money? Maybe it was savings but like, let's walk through that deal. So it's kind of interesting. Not everyone's first deal is like, well, now I'm running this auto mechanic transmission shop and I got this commercial property, its kind of unique.

**Scott:** Yeah man, so I was big, I've been working since I was 7, mowing lawns. I have a lot my whole life, I've been an entrepreneur and always just saving money, right? So I was the only kid that had tens of thousands of dollars in a bank account that I would never touch because I'd be like, why would I spend it? What am I going to spend it on? I don't really care about any of the

stuff. So that put me into a unique position financially to be able to act on this type of opportunity. And I got to tell you that most of my life has actually not been hard work, right? In that sense of having to scout for opportunity, right?

Most of my life is actually been in place of me just really paying attention and that as I pay attention, that opportunities just seem to pop up into it all the time. I don't know why, but all the time. I have so many opportunities that pop up for me all the time of things that I can do. I think that really is probably happening for all of us. It's just probably for most of us that are out there were so caught up inside of our own heads of that we're actually just not paying attention to the world as it actually exists not to get too deep in the whoo-hoo, but I think that might be the case. So anyway, this actually just popped up because somebody actually told me about it. I overheard in a conversation. They're like, oh yeah, I saw a sign out of this rundown auto repair shop. And I was like, whoa, that's awesome. Tell me about that. Until they said, yeah, they're trying to sell it and he's like, I just talked to the owner that happened to be there so that they're going to sell protect so they sell it super cheap. He was like great. I was like, oh, let me talk to him.

And so yeah, I bought the building and oh, look he's an older guy and he wanted something to be done with it and he was too old to do anything. So he's just like, yeah, man. I'll just sell it to you for the tax so I can just be out of having dare mess with this. And that's where I got my first inclination of I think what you actually understand Daniel was people actually be willing to make great deals if you can solve them with an emotional pain or then. And then they will give you great financial terms if you can help them with an emotional pain of something they don't know how to resolve, right? That's the whole ceiling, the cracks of whole ceiling I think is built around that. And so that's how it happened.

**Dan:** So was he running the business at the time?

**Scott:** Yeah. He had to have, his doors were shut because he got injured or something.

**Dan:** Yeah.

**Scott:** And he was like, Alright, cool, I can't run it. And then so I bought the building. And then I found another partner that actually knew how to run those types of businesses, but he didn't have any business sense but he was a great mechanic. And then I was able to do things like get us free publications inside of the local newspapers by doing newsjacking and other things that I'd read books about, about how to do promotion. So that was my role, right? Is like watch the books and stuff, how do we get more publicity? How can we increase our rates? And then his job was running the actual shop and repair stuff on its own. And then we just took all the profits that we had. Instead of spending them, we worked to fix up the building.

So now at the end of it because I was like we're going to have a better asset if we can make the business run and turn it into a profitable business. We'll get a multiplier off of the profitability and then we'll get another kicker off of having a hard asset that's going to appreciate because now we've tucked away at fixing it up over time and not like a beautiful building, it's not the Taj Mahal, right? This is like in the lower income area of like lower income areas right, of what's out

there.

**Dan:** Where was that one located? What city just against?

**Scott:** Yeah. It's in Albany, Utah.

**Dan:** Okay.

**Scott:** And if you look at the Albany Times, you'll actually be able to find one of the stories they wrote about us that we did about donating a transmission to a local charity and the fun story of two law students running a company and everything that we did there. So that was a fun time life. A lot of work, not a lot of sleep.

**Dan:** Nice. I had been Ryan Berg on the show a few weeks ago a couple listeners. The listeners probably remember this because it was recently. And we're focused almost 95% on single family. We do a 10 unit building, 14 unit building, small garage stuff is 6,000 square foot type warehouse. And over the past year, we retargeted our model to include commercial property. So right now we're looking for 95,000 square foot and up flex buildings that maybe need a million or \$2 million worth in repair so that we can rebrand them as tech center rent them out to other tenants. And Ben and I were talking. He's got like a \$500 million portfolio.

So I come into the show and I'm like, I want to hear cap rates and medical office, best markets and all this. I want these technical jargon. His advice was Dan, you just need to believe that you can do these larger deals and that's pretty much all it boils down to. You just have to believe you can do it. It wasn't the answer I wanted but maybe it was the answer that we all need to hear at any given time because it's like you're in a position, maybe had money in the bank account. What you believed you could put the deal together. Otherwise, you never would have approached the owner in the first place in Albany, Utah, and had the conversation.

**Scott:** Yeah, that's true, right? But it's also true to the extent that you can get caught in a trap where you're trying to Jedi mind trick yourself into believing something that you don't know is true. I think people think that his advice is good advice. I would also offer to you another perspective which is, when it's the right time, it's obvious that it's the right time. There's not a question of when it's the right time. When there's real opportunity that exists, and it's the right time for whatever you think coordinates these stuff in the universe into it. It's an obvious push to do something and you'll sit there and be like, why am I being guided or feel like I need to go do that thing when I have no good reason to think that this will work?

This where I say it's like this is what I mean by paying attention, that opportunity is about paying attention. It's not getting caught up in all of these shoulds and trying to live all of the stories that you see on Instagram or other people's lives and how they did it. You really study what's going on with these people that are also successful and sit down with them in long dinners. What you arrive is that they don't actually know what made them successful. They don't really know, right? Because if the story of success was something you could know, then all of a sudden we would have used our logical minds to boil it down into a step-by-step process in which we would be able to execute and everybody would be successful in the world run perfectly

like machines. That doesn't work like that, does it? That means that there's actually something else going on. There's a mechanism at play that we don't actually fully understand. And I don't claim to understand it either.

But what I do know is that the times in my life where I had the overwhelming impulse like, hey, you're supposed to go do that. Inside of myself when I followed it, it worked out really well. And when I had that feeling and I got scared and I didn't do it, stuff didn't work out so well. So now I think this is like one of those pieces, right? It's like I just accept the fact that there's just going to be a million things I'm not going to go do and there's a million lives I'm not supposed to go live. But really if I just pay attention to what's actually true inside of me at any given moment as I'm living my life, that the opportunities are going to be there and they're going to be obvious that I'm suppose to go do that. Don't have to wonder about whether I'm suppose to go do it or not.

**Dan:** I think I watched my belief level change over time. So when I first got in the business, I thought it would be a miracle if I can make \$5,000 on the deal. In fact, 6 was the number I was actually walking around telling people here's how it works, you get a deal for 20 grand and you sell it for 26,000, you make 6,000. My first deal ended up being exactly a \$6,000 check. And for a long time, my belief was okay with that 6, 20 that was huge. It was like life-changing money, 25 to fix and flip a house. And I remember actually having podcast episodes 4 or 5 years ago, and I remember people saying things like we bought that one for 250 and we sold it for 350. We made \$100,000. Wow, that was like a 4-minute mile. And I didn't even believe it could be done. And what happened Scott, is because I didn't believe, maybe I didn't believe I was worthy of the opportunity.

Those opportunities were in my queue. They were in my CRM, they were in already in my lead portal because I went back and looked for some of them attract what they end up trading for and what I could have bought it for and I had missed \$100,000 deals like multiple of \$100,000 deals that had already like they were going to do business with us but because we didn't really see the value there, we didn't believe it would work. We never pulled the trigger on it and somebody else took the rest and somebody else made the money, right? And so, that's kind of where I'm at with the universe.

**Scott:** Yeah.

**Dan:** God will deliver. The opportunity will give you the instruction, but you do have to match the belief to actually go out there and have the faith to take the action. I think that was kind of where I was going with that because you're going to miss the opportunity, right? If your belief is different, you're not even going to have the right lens to see the deal and it's hard, right? Because like to your point, I feel like there's things that I've tried to believe for that was my own idea and maybe not what the universe had written into the DNA of reality or fate at some level and it didn't work out. So it's like, I could not take the action, it doesn't work out, but I could also take action on like my own fantastical inspiration or belief and it doesn't work out either. But one of my belief is congruent with what universe has.

**Scott:** Yeah.

**Dan:** That's when the real magic occurs.

**Scott:** That's 100%. We share the exact same viewpoint, right? What I'm advocating for is, there's a perception I think that's out there that says, I need to force my belief system to change. Yeah. And so what people I think are doing is that they're trying to do this Jedi mind trick of forcing their belief system to change by like I'm just going to believe it and achieve it. And I'm just going to do the stuff or like and that's why I look at people doing this and I'm like, I don't know man, this sounds kind of crazy. You're just going to will that into existence and they can never work for me. Yeah, if it works for you or work for somebody else like namaste, right? You've figured out something that I haven't been able to figure out how to make work out for me.

But seems to be the case for me, right? Is I think it glime exactly with what you experience, which is actually when it's the right time, if I stay alert of what's going on in the world, right? I keep my eyes open, my ears open of what's happening in the world. The right information, the right opportunities will come into me, they automatically start to click and that I don't have to try. The belief system will actually just change and I'm like, oh my God, I see everything differently now, this just came in. But it came in at the right time in the right place for you for wherever you were at. And so, what I'm advocating for is for everybody just to relax a little bit, right? And just watch. Keep your ears open, keep your eyes open for that, right? Just keep observing, right? Stay relaxed and just observe, right, what's happening.

And then what will happen is the information that you need will come to you. Your belief systems, the structure, the team and all of those things will actually just naturally occur. You don't need to force things into reality. The right reality for you will unfold in it's right time. Yeah, just stay relaxed. Observe, keep listening.

**Dan:** All right, cool. Let's switch gears. We'll give the listeners what they came for?

**Scott:** Yeah. Then give a good old technical talk I guess and get \$10,000 in education here in the next 15 minutes.

**Dan:** That's right. So asset protection, let's say I am a real estate investor. I have somewhere in the neighborhood of I don't know, 2 in 10 houses right now maybe have been added a year or 2, maybe 10 years, maybe my net worth is 200 grand, maybe it's a million, I don't know. How should I best structure these hard assets that are right now may be owned with maybe LLC's or maybe personally with like my name on titles and my home address on tax mailing bills and things of that nature. How would the Royal Legal Solutions team structure my assets that I might not have them structured already?

**Scott:** There's a writer, a friend of mine who's a real estate investor, lost over \$3 million from a single lawsuit and he used to brag about his giant umbrella policy. And he's like all these LLC's and stuff, they're just for rich people into it. It's too complicated and he was so skeptical. He learned the lesson the hard way by losing \$3 million from a breach of contract case and he found out about insurance companies, right. That they don't, they only protect against simple negligence and when things get really expensive, their business model is to deny coverage, right? Which leaves you holding the bag. So, the only thing that you can really do as an investor is to

be proactive with having good insurance in place because that's your best first cheapest line of defense to a lawsuit happening. I recommend have an umbrella policy, like there's this 1 to 2 million, anything in there. They're the really cheap to have so bulk up on some umbrella policy. And then use either an LLC or a series LLC structure. The the most effective structure you can do that for cost effectiveness is a series LLC.

You can form them either in Delaware, Texas, Nevada or Wyoming where they have strong charging order protection. You want to form it in one of those States and but you can use it in any other state based upon the full Faith and Credit Clause of the US Constitution. The same reason why you can form a Delaware LLC in Delaware and use it anywhere else in the United States. Same thing applies to series LLCs formed in Delaware or Texas or Nevada or Wyoming, and use there. Ultimately, you want a series LLC because you can form them anonymously, connect it to have it, everything pull back to a law firm. So the information is connected by attorney-client privilege. So people look to try to sue you, don't look like you haven't own anything.

Then what you can do is compartmentalize every asset for free because when you form a series LLC, what it does is you have a parent entity and it can form an unlimited number of these things called child series underneath it. Act just like normal children be free to create but they work just like individual LLCs. And then it cost you nothing to maintain, you don't have to do anything with them each year. So essentially what you get is you form one company with one in EIN number, one bank account, one set of accounting books, but you get to create an infinite number of these child series for free. Each one of them compartmentalizes every single one of your assets that you own. So if anything happens to you, it's all held inside of a structure. You don't own anything anymore. It's all held by this asset holding company that's anonymous.

The asset holding company owns all of the assets anonymously. All the assets are compartmentalize. So if there's a lawsuit against any one of the assets, they can't go after any of the other assets and they can't come after you. And that if anybody looks to sue you, it doesn't look like you own anything on paper and that's how you stop lawsuits before they even start. Because people don't sue people who look like on paper that they qualify for food stamps. It's just the nature of the business that comes with that. If they do decide to sue you, you have this mountain of protection that's put in place.

And they're like they look it back like, oh my God, this is terrible to fight. They're like, so far we've lost zero cases and in to it. Every single lawsuit, we're getting about a lawsuit a month that comes through. And every single one of those cases is either just dropped outright because of the nature of the defense that are put in place where we settle on for almost nothing as it come through. So it's incredibly effective and it's what all of the wealthy people that I know that are worth, let's say wealthy is 5 million plus. I know that's not like a ton of money, right? But most people are trying to get to that \$5 million benchmarking net worth. Every single one of them uses an advanced structure that's sophisticated, that's like a Savvy, detail-oriented serious person. Find a lot of people that have a ton of money that aren't that way, but all the ones that are Savvy, detail-oriented and had to work their way to building their wealth, all those people are using these types of structures.

**Dan:** So the series LLC in Delaware. Do you run into issues when you have a multi-state portfolio where you're having to do these registrations or foreign corporations and things of that nature and file multiple layers of tax returns? Have it in Delaware, your properties are in Illinois because you live in Chicago, does it create layers of additional paperwork in that way?

**Scott:** Yeah. So what we do is typically will use Texas or Wyoming. I actually like to use Texas because Texas doesn't have any yearly fees and it's just the strongest protection as everywhere else. And it's great on that side of the costs, it's not a huge cost but it's something right.

**Dan:** Yeah. They add up.

**Scott:** I don't want to weigh some [inaudible] [crosstalk].

**Dan:** Especially you had a bunch of them. Right.

**Scott:** Yeah. The deal is that we're actually never holding any assets directly in the name of any of these child Series. So let's say that I have like this parent that I create, right? It's at the top. A parent now has child series A that gets spun up and that child series A is actually going to own land trust A, land trust A is going to own property A that's located in Illinois. So now I have a Texas entity, right? That has a child series and has a land trust. But then that land trust is what's on title to the property that's in Illinois. So now if anybody looks at the land trust, they're going to say, well we can't find out who actually is associated with this land trust because everything ties back to this Law Firm. So it's all protected by attorney-client privilege that comes into it. Yeah. And then if the client needs to get financing or something like that, they just produce the trust which shows that they're actually the ultimate owner and person controlling the trust. That the law firm doesn't actually control the trust. They can make the private disclosure, we don't blow any anonymity there.

And we don't have to pay any annual fees to Illinois or any other state for owning assets because the trust is the one that's actually on title to the asset, not the LLC. So there's no foreign entity registration requirements that happen. So we can own as many assets we want to wherever we want to in the states. We don't have any double taxation issues. We don't have any state foreign filing issues that are outside of the things that you're already having to deal with right now. There's no additional complications or tax returns that run into your life. Everything is structured as a disregarded entity with the minimal amount, very minimal amount of maintenance costs, and without any additional pieces, other than you know what otherwise you have to pay, right?

So a lot of people own assets in their personal name and they're saying they think that they're saving every dollar owning assets in their personal name because of some of these issues. And those are the number one customers that we have our clients, that we have come in is that they're like, hey listen this is actually not going to cost you any more additional time for you to do because they're all disregarded entities, you're still keeping a set of books for everything, aren't you? Okay, great. So you're still just going to have to do that. Tag the income and expenses for each property, everything else there's no renewals and they have to do outside of a single LLC every year. And so you end up with these, your run cost for the stuff is 500 or \$1,000 a year



depending on how many entities that you need for and that really boils down to tax issues.

And then you have setups, right? That would come in to do the setup costs on which is variable depending on how many assets you have and what type, right? So all of this stuff is super affordable and easy to manage. That's why I've spent 8 years just focusing on what's the most effective systems that have the minimal amount of costs in the easiest runtime is ultimately I think that's what we all want as investors, right? We really want our time back, right? And that's what we're able to deliver for people is the best solutions that give you your time back.

**Dan:** So the child LLC is the beneficiary of that Land Trust?

**Scott:** Yeah. So you have a Land Trust, the child series is the beneficiary. Child series A is a beneficiary of the land trust. The client is actually something called like this, the substitute trustee of the land trust. So the law firm will actually be what's called the nominee trustees or the one that's listed on title. But we immediately resign as trustee the moment that the assets transferred in happens automatically. So the clients always in control the property. Money flows from that trust to the child series, child series to the parent and then from the parent as an owner's distribution back to the client. Right?

**Dan:** Is that 3 bank accounts that you just described?

**Scott:** You don't have to do multiple bank accounts. A lot of times all of our clients are doing, so say great I may ask a holding company which is my series LLC, I'm going to set up a completely separate company. You call that an operating company that owns no assets. It's the one that signs all of the leases. That way, you're not personally liable for a breach of the lease or any other thing else that can damage your credit score because we want to protect you personally to protect your credit score. And then we've run all of the transactions through that operating company. Yeah, so everybody pays the operating company, the operating company acts like it's a property manager. So client will still if there's doing self-management. They're like cool. I work for this other company that and they're the ones that are the leasing entity. I work for them. So it makes it where you're not the owner, which is kind of nice in terms of the relationship and expectations that happen in these situations. And then the money is now, it's like cool, the money is held by his operating company.

Now the operating company distributes cash that it has on me like a monthly or quarterly basis whatever you feel most appropriate. I recommend to do it at least quarterly and distribute to the asset holding company. So it's one bank account for the operating company, one bank account for this parent series LLC. The parent series LLC is the one that you're actually having all of your books in of what is the income and expenses for each one of those properties. Yeah. So the book, you can have one bank account as long as you have books that say here's the income and expenses for each individual properties because that's what courts actually look at to say are you treating these as separate businesses as I want to see income and expenses profiled, right?

That means you don't have to have all these different bank accounts which makes your life way easier. And you're doing the same amount of bookkeeping that you would be doing any way to know what's the true ROI for each one of these properties that I have and as we could, including

like cost basis and stuff like that for your tax purposes and whatnot, right? And then that's it, that's all you got to do as I got two structures. I got one structure that I do all my day-to-day transactions in. I have an asset holding company that holds all my assets, otherwise I don't really touch anything with it at all. If I get a new asset, probably going to acquire that in my personal name if I'm doing conventional financing and then transferring it into the asset afterwards through the land trust and I can do that all without avoiding the due on sale clause and the other issues there. Otherwise I just contact Royal Legal Solutions every time I acquire a new asset that I'll be able to create the child Series in the trust. We move that in, and now it runs in the background, it's all maintained for me. I just manage my cash flow coming in from all of my leases that come in every month and from all of my tenants, I move it out every quarter into my asset holding company. I update my books and that's all I got to do .

And then I attend. We do twice yearly meetings with the clients to ensure they're running everything correctly because obviously there's moving parts here, right? So check in twice a year, make sure everything's on. Did you acquire any assets? Forget to move them in? Kind of watch everybody's back on that. And then we provide next day support from the paralegal team via email and escalated to attorneys biddings if there's ever questions on it. That's the kind of the full gamut of how that work.

**Dan:** Does the operating company also file its own set of taxes?

**Scott:** No, because it's going to have zero income, right? So they could be a zero dollar tax return.

**Dan:** Yeah. But you would do that, you would still do that, right? Wouldn't that be part of the legal veil if that wasn't a tax filing? Does that then open you up to hate that veil, the corporate veil pierced? If someone were really strong attorney?

**Scott:** So the corporate veil being pierced means that they get to treat you and the entity as the same entity to do it.

**Dan:** That's a problem though. If they sue that operating company and they pierce that corporate veil, you are personally liable now and they can go back door every other one of the assets you set up.

**Scott:** So the issue is really to answer the question as this, is that company having a tax return indicative of the fact of a corporate veil being able to be pierced?

**Dan:** If it doesn't have a tax return.

**Scott:** You got it right, if it doesn't, right? And say as a dispositive.

**Dan:** Yeah.

**Scott:** From my understanding of it is that tax returns aren't dispositive. What is dispositive is

business records that come into it. So filing having a zero dollar tax return filed for an entity is not dispositive upon the fact of are these two entities really truly the same entity. There's really only a couple of ways that you can pierce the corporate veil, right? The most common one that we're worried about here is that typically called an alter ego theory, saying that these two companies are really the same company. What happens in alter ego theories for most cases, right? It's that people will file an LLC for example, they start to run their business out of the LLC. The LLC doesn't have any books and that when Daniel wants and Daniel just goes to that LLC bank account and then just starts taking money out of it. Well, let's say, well, you're not really running that like a business, right? You don't have books that are associated with it, you're really just pulling money out of it and treating it like as if it's your own bank account, you're not documenting money that you're pulling out as like an owner's distribution. And that at the end of the day, there's a seven factor test that most states employ for alter ego theories for piercing the veil. None of those are tax return to my knowledge

And everything that's dispositive really comes down to the bookkeeping that courts are really looking at saying, do you have bookkeeping and so as you're keeping track of business income and expenses for each LLC as a reply to each property here. So, I would say at maximum, what I would say is if you're wanting to be on the extreme side of caution, I would be look at having a separate set of books for the operating company that says any money that flowed through it also got distributed out to the asset holding company but it wouldn't be necessary to file a zero dollar tax return for those LLCs. I've also run a CPAs that are say like well every LLC that you have, you should always have a tax return filed for every single one of them.

**Dan:** So they may want that?

**Scott:** They may want that. And this is where you get into a different question, right? Which is what is in the bounds of the strict, the most strict sense of the rules right, versus what's the practicality of where's the real risk, right? So there's always a question that I always ask professionals when I work with them, especially CPAs. Is like I know there's three hats, there's the white hat, there's the gray hat and then there's a black hat. I never work with black hats because black hats are going to end me like get me in jail, right? We're going to be recommending that I do stuff hoping that we're not going to get caught and I'm like, no that's too much exposure. I know if I work with people that are totally white hat and everything they do is that it's like over compliant, right? It's over compliant that we're paying money and doing things to not actually reduce the amount of risk because I look at everything, I'm a litigator, right? I look at everything in terms of what is the risk that I'm being exposed to for doing something or not doing something and it's all like risk-reward games that are going on.

And so what I'm really looking for is what's the sweet Spot of saying like where do we actually need to? Where is the sweet spot of the most cost effective version? So there's a thing that we all do, right? And where most of all of us do where it's like, hey we have a company car and we write off so much of the expenses the company car. IRS says well we should log every single time with the exact mileage that we go into this car to be able to ride that off. Please talk to your CPA, they're really like, no, you just take an estimate and run it and if it gets called out, we'll deal with it at that time. And they'll use some type of estimated mileage and

it'll be fine. But now it's not what your white hat CPA is going to tell you, right? I have CPAs and they're like, hey, you really need to have a pencil and write down the exact mileage every time and so you're doing a lot more work to be able to cover off on something that's actually not as big of. It's like the risk-reward isn't there to go do it like the technical right way. But I would defer to everybody CPA in your own judgement into it, right? I'm not here to be like, hey, you should do everything the way that necessarily I say to do it. And actually, if you feel like that, you want to do it that way because it makes you feel good to do it that way and it feels right, then do it any other day. All of this stuff is only as good as your peace of mind. So if you feel like you need to do that, could it give you the peace of mind you need? Now how will it? Because all of this stuff is just to give you peace of mind. So do it whatever way you feel on that, right? I can only tell you my experience.

**Dan:** So does your yearly meeting with your client create some annual report or meeting of the shareholders that then creates that document trail to also kind of protect if there were a lawsuit?

**Scott:** Yeah. And so you'll have yearly meetings that get put into it, right. And most of the time they're actually just formulaic waivers of minutes. It's just a great documentation that says we're looking at something at least once a year. I knew what you're doing, and all of these things, right is you're just doing formal compliance to build a paper trail, right? That comes with that.

**Dan:** Usually, what happens from what I understand is, the lawsuit comes and then the secretary of the company along with the owner of the company stays up all night creating last 9 years worth of paper trail records the day before that stuff is due to the other side of the lawsuit. That's kind of the horror story that I've heard. So you guys are trying to do something in advance of all that and properly create that paper trail is that part of the [inaudible].

**Scott:** Yeah, that's part of everything we're doing, right?

**Dan:** Okay.

**Scott:** We're trying to get to or where we're at actually is what I should say is that our belief is, if we set everything up for you from your asset protection, your state planning, your tax strategy that you can manage everything. Everything that you need to do in your life gets managed in 2 yearly meetings, unless you decide to call extra meetings with it, right? And that all of the things that need to happen run by a standardized system and process that our team maintains. The idea is for you to not have to think about any of those things. And I say well here's actually the efficient compliance that we can get to by saying we work with Real Estate Investors is like a segment and we work inside of these kinds of systems which allows us to have huge leverage and saying that what we're going to do is actually super repeatable. That is the way that professionals can say, yeah, I have this thing that's called repeatable or cookie cutter, but it also happens to be the very best thing you can get because it's only for a particular segment of customers, right? We're not doing it for everybody else, we're only for Real Estate Investors and primarily for single-family home Real Estate Investors.

**Dan:** So what are some advice or other structures or setups? What's the answer to the tax problem? Maybe we touched on it already, maybe you have a better solution but how can an

investor reduce their taxable liability at the end of the year?

**Scott:** Yeah. So of course I'm sure you guys have already heard about. Okay. Cool. How you can cover your home office deductions, your auto deductions, you shelter money through your kids by paying them a reasonable wage every year. If you're self-employed right, there's the S corporation to be able to save you on self-employment taxes, but that's all the really low hanging fruit that everybody's already heard of. The really sexy thing that we do is the private foundation. The private foundation is a game changer. First of all, anybody that we've talked to that's making over 150k a year, we are able to save them enough money in taxes to actually pay for everything that we do, including all the asset protection, the estate plan and even the tax strategy itself because we're so good at how do we find tax savings?

Private foundation is a critical part of that because private foundations allow you to do wild stuff. You can take up to 30% of your income, push it into a private foundation that you set up. That private foundation can then go make whatever investments it wants to make from the stock market to real estate or whatever, and to be able to increase the capital of the private foundation. And so imagine that as way better than it's only for 1k or something like that. That where it's locked up inside a retirement account because in a private foundation, you're actually able to be a director, which means you can pull a directors wage which is an undefined amount of money. Some type of reasonable wage for the services that you're doing.

So what you're actually able to do is to create a retirement account that's 30% of whatever your income is from all sources that can grow tax-free over time. And then whenever you want cash out of it, these are directors wages they're able to pull from. So it's much more effective than your retirement account.

**Dan:** What are some of the downsides? Does the foundation have to give away a certain amount each year?

**Scott:** 5%.

**Dan:** 5%.

**Scott:** 5%. You give away 5% to your church or to whatever else you want to do. I have a nonprofit that supports child literacy, that's actually in dyslexia remediation. And we have our internal CPAs donate time to say, listen, if you're donating your 5% every year to Scotts nonprofit essentially, that they donate their time to do the tax returns for you for your nonprofit and to, right? So it's like a way in which we're able to make it where it's like a win all around. And so for some people that don't have a designated charity, they really like to take advantage of something like that.

**Dan:** That's pretty cool. So is that 5% yearly of the total assets that are on hand?

**Scott:** That's right. 5% of the total amount of then all the assets are held by the nonprofit.

**Dan:** Okay. So if there happens to be \$1 million in there and that was your 30%, you're going to

have to give away 50 grand of that million?

**Scott:** That's right. Yeah.

**Dan:** And then the following year, you have to give away another 50 grand.

**Scott:** Yeah, you got to give another. But yeah, so it'll be like a million. So you have that money invested. If you're smart, you probably made at least 20% on that money. So now you have like a million-two and now you are going to say, will call off that million-two. I got to give away 5% of my million-two. So that's going to be 60K. So you're actually going to be giving away more money every year. But the juice of it is as I would say that your 30% was a million, most people's tax brackets, if you lease are like doctors or investors or whatnot, right? Most people tax brackets, even though they would try as hard as they can, is usually around 20%. They're not paying even the top, they've done everything that their normal typical CPAs are able to do them as best that they know how and it got down to 20. So instead of paying you could either say, hey, I'm happy to pay the tax on it. So now I have 800k or I can have \$1 million inside of my private foundation because I didn't have to pay tax on it. So and then I re-invest my money and turn 20% on it, I can either have the million, a million-two minus the 100K that I had to pay out for the 5%. So I'm at a million-one or I can be at 800,000 and then 20% of that. So, I'm at 96, but actually, I'm not at 96 because I had to pay tax in the cap gains of that 160k that I made, right? So I'm really at 92. So you can see the numbers actually are really easy to say would you really want to have 92 or 1 1 in year two.

So it's a no-brainer and the sense of why you would want to avoid taxes on the front end and avoid taxes on your cap gains that you're making by having everything structure in the private foundation. And then whenever you take the money out into your personal name, of course, you'll pay tax on at that point unless your strategic, right? And if your strategic, what you're doing is you're buying syndication deals that have 180% bonus depreciation associated with them, and you're or have real estate professional designations or you're buying carbon or carbon emission capture systems or fractional interest inside of gas stations that can apply to any sources of income because they're actually machinery depreciation. And then your Investments actually give you tax write-offs that you structure whenever you're going to have taxable events. And that's why good strategic planning is always pays for itself, right? That's why we can come in and be like, yeah, we're expensive for what it is that we do, right? We're the bottom end of the top-tier providers but I've just I've never seen it, we've crunched numbers for people and say like, we didn't give you at least a 2 to 300% return on your money and what you paid to us with insight of 2 years.

**Dan:** Yeah, it's interesting. So you can literally put the million and give away 50 grand and then take back a \$950,000 payment for being the director of the following year, and then you have to pay taxes on that.

**Scott:** So if you do it that aggressively, right? We're going to want to look into it about how are we going to justify a reasonable salary out to it and of pulling that much money out. For everybody that we work with, typically what's actually happening is that there's taking the money that they need to take to be able to live their life, right? But they're like, what's all this extra

income that I have? All this extra income I have, I'm really going to use it to invest to be able to increase my net worth, right. Now my private foundation is the right vehicle to do it.

So that's really how most people are using it. It's going to be like in that kind of circumstance. And there's a great, I mean it continue to increase my net worth really strategically through my private foundation until I reach this time period in my life where I'm like great, I'm ready to shift focus from money-making on to something else that I have going on in my life and I've accumulated enough assets. And at that point, then I'm just going to start pulling a wage and I want to make \$250,000 a year because that's what my lifestyle cost me.

And I say great. Well, you've built enough assets and we have it structured in this way where you are now able to do that. That's the nuts and bolts of that lifestyle, that kind of thinking about where money gets you.

**Dan:** Okay. Cool. Are there any book recommendations that maybe around this topic, maybe just life-changing books that you would make mention of, Scott?

**Scott:** Yeah. So actually, all of these things I have books on, and I have video trainings on and they're actually all inside of what we call the vault which I think is like a link that my promotion team gave it to you. So from Royallegal solutions.com, we have a video on the homepage which is, how does the team work, meeting the team and getting to see what's all the process and the typical recommendations that we make for everybody. Inside of the Vault, that was where I've taken all the education materials that I've produced over the last 8 years. So I have like 8 e-books in there. I have tons of videos, white papers. It's all categorized by different products, different types of strategies and all of the training. We have free weekly training that we do. All of those videos are saved in there as well too and that's from our CPAs and our attorneys training online. All of these things in a much better, they're much better at explaining as I am and they're much more detailed. The reason we created that vault is because we believe in giving away all the information for free, right? And so it's like if you just go in there and start studying, if you interact with us and tell us this is what I'm looking at, we can be like, you should watch these particular things. So there's a lot of value in actually just starting to form the relationship and getting educated.

But yeah, that's really what I've done instead of trying to write books and sell them, it's just, here's all the videos. Here's all the stuff my team has produced. It's all for free here in this type of organized place.

**Dan:** Nice, and that URL is once again?

**Scott:** If you go to Royallegalsolutions.com and just connect us, so they will be able to get you hooked up into the vault.

**Dan:** Cool. So I have to closing questions here. The first, the crown jewel of wisdom Scott, if you could go back to the time when you were maybe looking at that deal for the commercial property way back when knowing everything you know. Now, what would be the crown jewel of wisdom that you would go back and share with yourself then?

**Scott:** Yeah, I think through that property and then through my entrepreneurial life. What I would have told myself is actually just to relax. I thought that I had to do like every possible thing to be successful. And so what I was, I was so hyper active and stressed out all the time. And so I was like I didn't need to do that. I didn't have to be like that. So I wish I would have just relax more and everything would have taken care of what it need to get taken care of.

**Dan:** And my final question, what is the kindest thing anyone has ever done for you Scott?

**Scott:** Oh man, my godfather. He was the one that talked to me about going to law school. I was actually a cage fighter before I went to law school.

**Dan:** Oh wow.

**Scott:** I was doing professional tutoring in the evenings of Spanish and calculus and chemistry and physics to high school students that were going to the private schools because I could make 100 bucks an hour teaching those kids. And so I only had to work 10 hours a week to pay for all my expenses. And then the rest of the time I was trained professionally in martial-arts, wrestling, and in kickboxing, competing in UFC kinds of events and it was actually ridiculous amount of fun. I'm a lifetime athlete and I love physical Sports. I like that, but he was like go to law school. And eventually I got out of my system right and as a young man, this is what young men do, right?

I got out of my system and then I went to law school and of course then that propelled me into business and ways that I could actually leverage in helping more people than just getting kicked in the head.

**Dan:** Yeah. True enough. Who knows where that path would have led, right?

**Scott:** I wouldn't have been here [laughter].

**Dan:** Yeah, right. Cool. Good stuff. Hey I had a blast. We could probably keep going for another hour or 2 but I'm going to be respectful of everyone's time here. Thanks for coming on the show, Scott. I had a blast couple of pages in notes. Lot of great information here. So I appreciate you coming on.

**Scott:** Yeah. Thanks Rick. Thanks for having me on. I really enjoyed it.

**Dan:** [music] Thank you for listening to this episode of the REI diamonds, show with Dan Breslin. To receive email notifications of new weekly episodes, sign up at [www.REIdiamonds.com](http://www.REIdiamonds.com).

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