

Automated Voice 1: Welcome to the REI Diamonds Show with Dan Breslin, your source for real estate investment jewels of wisdom.

Dan Breslin: Shauna the Tax Goddess, welcome to the REI Diamonds Show. How are you doing today?

Shauna: I am doing fantastic. Thank you so much for asking, and how are you, Dan?

Dan: I am also fantastic. I was excited. I was excited when I saw the booking agents get us on the show. I said, look at this tax strategy. It's one of these topics that I've spent a good chunk of time reading over the 15 years I've been in business or so. I've had to learn so much of it myself. There's people that I run into who are like, "I don't really have anyone. I kind of need the right person." So I was like, all right, great. We're going to do this episode here and we're going to talk a few scenarios. Maybe you are that type of person for people who've had that issue. So the big problem that I want to highlight before we get into the show is anyone who's read The Snowball, Warren Buffett's biography. One of the big lessons for me in that book was tax efficiency. When you're not knowledgeable and intelligently structuring your business affairs year over year over year aware of the taxes, the taxes are chopping your gains down so that at the end of 15, 20, 25, 30 years, you may end up with a lot less than your efforts probably should have afforded you. So that's the big problem that we're really going to talk about a few of the solutions. I think everybody has a custom scenario here who's probably listening into the show. So we'll touch on a few of those. But before we get started there, would you mind giving the audience an overview of the tax goddess?

Shauna: I would love to. Thank you. So, Shauna the Tax Goddess, own a firm, tax goddess. At this point, we've got a little over 105 people in 17 different countries in the world, all focused, all trained on U.S. taxation. Now, really, I think the biggest thing and where people kind of get a little confused is, "Listen, Shauna, you're a CPA. I'm a CPA, master's in tax. I've got a bunch of letters after my name. What's really the difference between a standard CPA and a tax strategist?" If you look at it from the statistics, according to Google, there are 665,000 CPAs in the U.S. CPAs do all sorts of things. They file taxes, but they're also auditors, controllers, CFOs, bankers. I mean, they do all sorts of things. As you start to go up the chain specializing in tax strategy, there becomes fewer and fewer and fewer of us that really work on tax mitigation, minimizing that tax burden for business owners, for investors, for anybody involved. So when you start to look at these levels, the 665,000 CPAs, there's only 60,000 that have master's in tax. There are 607 that are considered certified tax coaches. As you go further up that chain, there's only 15, one, five, that are what are called certified tax strategists. So we are the top of the top of the top of the food chain. So when somebody says, what do you do that's different than other CPAs? Generally, a CPA's job is to keep you out of jail. File the forms, check all the right boxes, keep you out of jail. It is not their job to deep dive, dig into every strategy, create a customized plan for you. Because as you said, you could be married with kids. I'm single. I've got dogs. You have cats. Every piece on the chessboard changes the customized view of a custom tax plan for that individual. Because there are no two sets of facts and circumstances that are identical that just doesn't exist. So when you want to save the big bucks on taxes, you start looking for a tax strategist versus just your day-to-day CPA.

Dan: That's interesting because I mean, I've literally said this on like four or five of the last episodes. I'm like pleading to the audience to take responsibility for your own tax plan. You have to learn these strategies, bring them to your CPA, et cetera. One of my business partners was asking, "I need like a good accountant to handle my stuff." All the accountants said that, we know I'll file the taxes and we bring our strategy. I bring my strategy to them. I don't know about this. They go read the law and then they're okay with it and we get it done. I think in an ideal world, as a business owner, I would want the CPA to bring ideas to me.

Shauna: Amazing how that would work. You nailed it because people don't know what they don't know. Again, CPAs aren't... let's back up. The benefits of me having a team of 105 people, all I do is read court cases, read strategies, go hunt down new stuff so that I can bring that to our clients. But I've got CPAs on my staff too. They don't have time for that. They're in the middle of tax fighting season. They're trying to gather documents. They're preparing tax returns. They're doing your books. They're doing the day-to-day kind of stuff and we need those people. Who's going to file your return if we don't have the CPAs and the bookkeepers? We need those team members. But I think that's the big piece here is that when people think about their financial team, the one person is, I've got a CPA. There's more on your financial team than just your CPA and especially real estate investors. You guys know this. You have to have a good broker, banker, real estate mortgage broker. You've got to have a great insurance guy. What if there's a claim on the property? You've got to have a good legal person on the team. The tax strategist, the CPA, the bookkeeper, these are three additional financial people that should be a part of your overall team and they all work together. If you've had your CPA for 20 years, great. Keep them. As long as they do what you said, because we don't often hear that. I'm going to bring a strategy and they go, "Yes, let me read that. Let's see how I feel about that." As long as they're willing to have their eyes open and they're willing to read the code or whatever the court case, whatever it is, thumbs up from the tax goddess, 100%. Because we normally, in about 70% of cases, we run into the other kind of CPA. I haven't done that in 20 years and I'm not doing it. Time to find a new CPA. Things change. Literally, I think every day from the IRS, I get three updates, three. In each of those updates, there's at least 15 court cases a day. Literally every day the code is changing. Only a few people have time to keep up on all that.

Dan: Yes, and like, maybe one of the big problems, at least for myself, I remember thinking I had a CPA. So I'm probably like eight years into this relationship and the guy's doing my taxes and they ask for the CPA letter when I go to get a mortgage. We need your CPA to sign this thing. My guys like, "I'm not signing that because I'm not a CPA." I'm like, "What the hell do you mean you're not a CPA?" Here CPA is this certified public accountant. It's like another certification.

Shauna: It's a thing, yes.

Dan: So you said 65,000 of those exist in the US. What's the number for people who are like accountants and tax preparers? I mean, that's got to be several hundred thousand.

Shauna: Yes, and let me back up. CPAs is six hundred and sixty-five thousand. So almost 73,000 CPAs. So if you're adding. Bastards in tax have about 60. Like that's where you start to specialize. If you're adding the unenrolled preparers, the EAs, just, you know, Uncle Bob that

does taxes out of his house down the corner. I don't even know. I mean, we're easily talking a million easily.

Dan: Yes. Even more. I'm liking this too. I think a good analogy for us would be the medical industry. I think people relate to that. I go to the general practitioner and I have this issue with my foot and they refer me to the podiatrist or I'm having, heart issues and the test came back and now I'm going to see the cardiologist. So you're being sent to the specialist, but there is no general practitioner and nobody's pointing the way toward the strategist in the accounting world.

Shauna: A hundred percent. Well, then even most CPAs, even most tax preparers don't really even realize that there is such a specialty. They know that they don't do it. I mean, the most common situation that we hear. We call it the low hanging fruit. A good CPA is going to tell you, "Do you need a new car? Let's go buy one, that's more than 6,000. Are your kids on payroll? Let's go do that. Are you writing off your home office? Let's make sure you have the proper documentation." That's your low hanging fruit. All good. What we consider a good CPA is going to tell you those things. Those are basic. They're baseline. If you have a business, you should be doing this stuff. Where you start getting into tax strategy. You and I mentioned it a little bit earlier before we got on Cost Seg. Now, if you were a real estate professional and I, I'm sure you guys have heard this 30 billion times. If you're a real estate professional and you go to your CPA and you say, "Can you just kind of give me an overview? What does Cost Segregation mean?" You see the blank stare and you were hearing crickets in the background. You run away. You go find a CPA that at a minimum deal with real estate. Because cost said, if the CPA says they're a real estate CPA, that's your low hanging fruit. That's the baby basics that you should be doing, but you know, as a taxpayer, as a client, you don't know what you should and should not know and who should and should not know these things. So I love the fact that you're like, I read, I research, I ask questions even for us, read the wall street journal. They bring stack tax strategies, read, go look. There are newsletters that are tax strategies that even though they're considered baby basic strategies, it's a great place to start because as a taxpayer, your job is to go out and make money. Our job as a strategist is to keep it free. So we got to work together.

Dan: That makes sense. So we kind of have like tax preparation and planning 1.0 or 1.0, we could call it tax planning. 1.0 is your CPA is writing off your 6,000-pound vehicle. I can remember back in 2006 when I first found out about it and hurt maybe it was seven. I ran out, bought a Yukon Denali and it is 6,000 pounds. I thought I'd found like...

Shauna: [inaudible] absolutely.

Dan: So that, that's 1.0. You're writing off your gas because you're driving everywhere. You're tracking your mileage because of the automobile expense, your kids are on the payroll. You're writing your cell phone off and all these kinds of things. That's a tax planning 1.0, then tax planning 2.0 would be something like the Cost Seg. Maybe there's a tax planning 3.0 or maybe it's just 2.0, but what.

Shauna: A four and a five and a six brother, depending on where you want to go.

Dan: We're only going to three on today's show.

Shauna: We'll do a part two at level eight. I love it.

Dan: Maybe you could fill in a couple of holes. So Cost Seg, I'm calling 2.0. Are there a few other examples you'd plug in 2.0 and then maybe we'll switch gears and give me a few examples of 3.0, which might be like a little more advanced. Maybe if you have them because we have a real estate audience, maybe in the real estate space might make sense.

Shauna: Love it. So let's go with 2.0. So if Cost Seg is a 2.0, the next one that's 2.0 is if you bring your dog with you or you have any business purpose for your dog. And I'm seeing the big smile on Dan's face. Now let me back up, Dan. I have five dogs, five. I have a Connie Corso, two German shepherds and two boxers. Now big ones. They're, they're all big. Very fair point. Chihuahuas are not going to work for this right off. Like it's got to be a good size puppy. So you have two different ways that writing off dogs can work. One of them is security. So we see a lot of single female or females that are going out and doing their job on their own. So you're going to fix the plumbing. You're going to meet the construction guy at the site, like whatever it is. If your dog comes with you, you now have a security with you. If the dog, the basic, there's three requirements. The dog shoulder must be taller than the height of your knee. So again, Chihuahua not going to work. The dog has to have basic training sit, stay calm. The dog has to have a business purpose. If you're going out to a construction site at six o'clock to meet the plumber, you maybe don't know that plumber. I mean the dog Scott, that's a business purpose, your security and your ability to make money is because you have to transact with other people. So now we've got the dogs written off. We've got the Cost Seg written off. One of the other big ones that a lot of people don't realize is that depending on how you're selling the business. Like, are you selling, are you fixing flipping homes every month? What's going on there? Or are you doing this more? You buy the house, you move into it, you live there for two years, you get the nice little home exclusion on the flip and you do that every two years. Depending on which way you go, there are specific strategies for selling the property. So if you buy and hold, if you're a long-term buy and hold, you can use installment sale trusts. There's different ways to kind of put a median in between you and another, the buyer. So installment sale trust, you could do 1031s. If you're kind of maybe getting older and you want to get out of the real estate, the physicality of the real estate, but you still really like real estate as a general area of investment, you could switch, do a 721 to go from real estate property to a REIT. So there's a lot of strategies on the sales side. Then I suppose day to day, level two kind of day to day. The other big one that I think gets missed is actually using the master's exemption. Now a lot of the real estate and sometimes it's called the Augusta rule. Sometimes it's called the master's exemption.

A lot of real estate professionals will look at this from the standpoint of, I've got a property in Scottsdale, Arizona. Every year when the Rose bowl comes in, I can rent it out for two weeks out of the year and make a hundred thousand dollars and not have to rent the property out for the rest of the year. Completely tax free. Like this, this is great. You can also look at it the other way, which says I'm renting out the property for 365 minus 14. So 351 days a year, it's a rental property and I get two weeks of free vacation in Maui, Bali, wherever this property is. So using the assets that you have to make sure that not only are you getting the best tax deductions, but things that are personal expenses like your two-week vacation are actually a tax deduction instead of having to be paid out of your personal pocket.

Dan: The last one there would be like a strategy for buying your vacation home then. That would have been the tax plan is, you love Phoenix, Arizona and look at it this way. That would probably have the short term rental attached to it. That kind of thing.

Shauna: Absolutely. You can use it either way, which I love. Even your primary home.

Dan: I'm assuming on our security dog and the right off and the whole thing. I don't know if anyone else listening has a dog, but you know the wrong year with dogs and the vet vet, we got the surgery. I mean, you're nine, \$10,000 a dog in a tough year and it's not an easy year either because the dog is not a chipper and tail wagging. So it's stressful, but to be able to take the right off as an interesting concept. So I'm assuming you must've read the, there must've been court cases that you read.

Shauna: That's where you can't use the chihuahua. Super interesting. I mean, the shoulder thing came from the court case. It's got to be, the shoulder has to be taller than the height. There's only, there are some breed allowances. So for example, if you have a pit bull, often they're shorter and more squat. They qualify because of the breed. Like they will absolutely protect the family or protect the person or pretty. So there are some breed allowances, but yeah, these, these are the types of things that the CPA that's filing your tax return, they don't have time to read all the court cases. Like that's why you ask for a strategist. That's our job is to know those details.

Dan: I mean, who would have thought to go see their CPA tax strategist before they selected their dog breed or adopted their dog?

Shauna: Exactly, and there are so many, I think that's one of the things that I just absolutely love about tax strategy from that standpoint, when you decide what you want, you tell us and we tell you how to get there. Do you want to buy a yacht? Do you have serious medical expenses? We can write off all your family medical expenses as a business expense. All of them, mom, grandma, dad, surgery, teeth, vision. Those aren't cheap either. So one of the things, when we talk to clients, one of the most important, there's really two important things we need to know. The first one is where are you currently spending money that you are not already deducting it. The vacation home, the medical, the dog, your Starbucks addiction. We had a client spending \$36,000 a year in Starbucks. How do we make that business? Legally above board. Like we have to do all the things cross the T's dot the eyes. How do we do that? We need to know what you're spending. That's step number one. Step number two, we need to understand your aggression level. Because there's a scale zero to 10 zero meaning the IRS never calls you never, ever except for a random audit and 10 mean we're all going to jail. Like, so where do you sit on that scale? If you're a 10, my job is to pull you back from the edge. Like orange, red, you know, do not look good together. I'm not going to jail. You're not going to jail. It's not happening. A nine is Al Capone doing some shady stuff, hoping you don't get caught. Eight is basically the furthest, any qualified good CPA tax strategist is going to go because I don't mind getting a call from the IRS. We will handle that call on your behalf. We'll do those things. We'll work with you, but you have to have all the documentation crossing those T's dot those I's to be able to, to do that level of strategy.

Dan: If I was going to kind of put a real situation to a 10 out of 10, being the aggressive, the two aggressive tax strategy, we would say the pizza shop owner who's collecting cash and not claiming that cash over the counter or the landlord who's collecting cash rents. He's calling his unit vacant. That would be a 10 out of 10. There's no defense for that activity. What would be an example of something? I mean, is the dog an eight out of a 10?

Shauna: Let's talk about it. So you own a property where unfortunately there's now crime around the property. You bought a property in an area. You thought it was going to go good. The property area did not go good. Would writing off your dog to go visit that property be considered an eight, nine or 10? No, it's probably like a four. Now, if you're living in Beverly Hills and you're trying to white off the Chihuahua. Maybe not. I know the ankle biter can be vicious, but yes.

Dan: So you're kind of like put future pace in yourself. This might be where the strategy and someone who read all the case law comes into play because you can't just listen to this podcast and everyone's writing off their Pitbull's.

Shauna: Do not [Inaudible].

Dan: I think your mic might've gone a little off. I don't know. It got a little low.

Shauna: I got all excited. Sorry.

Dan: I think this is working now. Because you would have to put yourself in the future and you're sitting in a room. I've been audited before and you're explaining this. Or your CPA is explaining this. They might ask for things like that. What's the address of the property where the security was needed? Wait a minute. This is a 10 out of 10 school system. Did you really actually need it here? Now we're going to take that one away. Do you have some, uh, emails about the repairs that you had to actually go and do where you brought the dog? Was there a calendar invite. They literally do ask for things to...

Shauna: Absolutely. It's kind of going back to the Augusta rule and the master's exemption. One of the ways where people try to kind of like cheat the system a little bit here is, I held an event at my home for business purposes. So where's the invite, where's the agenda, where's the sign in book, where's the selfie of you with 15 people at your living room table doing your mastermind event. You better have proof. Cause the IRS will come ask questions. I mean, at the moment, what was it about a year ago, about a year and a half ago? They funded the IRS with like an extra \$23 billion. Then they pulled back 75% of the funding. So the IRS, had publicly said, we're going to go hire 87,000 agents. They have no money. So you're also playing a game here. That's seven, eight, nine, 10. Am I going to be the lucky one that's drawn for the random audit or not? So it's a two-sided coin as far as how aggressive you want to go, which is why that aggression question is so important to know.

Dan: Interesting. What have we not discussed as a strategy or mentioned that might be a seven or eight on that scale?

Shauna: So moving to that 3.0 kind of arena, if your business makes a million dollars or more a year, so let's start there. That's revenue. That's flips that sales, like whatever it is. So if you're in real estate, you can flip two homes and be at a million. One of my favorite strategies is something called captive insurance. Now, if you think about it from the standpoint, I always like to use COVID as the perfect example for this. During COVID, we had a lot of renters that were not paying their rents. Government's handing out cash. I don't have to pay. We're getting waivers on paying rents in the first.... You're laughing because you know, exactly talking about.

Dan: It happened.

Shauna: Now nobody wants something like that to happen. No. Nobody wants COVID. Nobody wants those kinds of deals, but life happens. Things happen. This is why we have insurance. So normally you would go to your insurance carrier, state farm farmers, like whoever's your insurance carrier. You would say, "There was an act of God pain. I have been paying you premiums for 20 years to cover things like this flat out across the board." The insurance company said, "Active God, we're not paying anybody, nothing, absolutely zero. Nobody's getting any cash." So our landlords are repair guys or construction guys. Everybody was out of money. I'm not getting money from any sides. I don't get it from my insurance company. I don't get it anywhere. One of the things that I love about having your own captive. Is that you can buy insurance policies for yourself on anything that is not covered by regular insurance. So the act of God with COVID, we perfect example. We had a client actually in the food industry. Does catering for the major league baseball teams. He bought his food on February 15th. He lost \$600,000 of food spoilage. His insurance company said, nope, doesn't matter. You've been paying us for 20 years, zero cash. So, having your own captive insurance company, not only allows you to put away your own money, your business would write typically somewhere between five and 15% of your gross revenue. So let's just go with 10 to make it easy. If you're making a million dollars, 10% of your gross revenue is a hundred thousand. That hundred thousand goes into your own captive. It's a full deduction for you and your operating business. It is never taxable. Never, ever, never, ever again inside the captive. So every single year. Now, of course, if you have an insurance call, if COVID happens, you have a pile of money that you've saved to protect yourself for that. But if COVID never happens again, you now have a pile of money that never got taxed. It's good stuff.

Dan: If COVID happens, so is this like a captive account? It's sort of your account that you set up special.

Shauna: Your insurance company. This is level three guys. Like this strategy and documents. I mean, this is much more complex, but yeah, it's, it's your money. It's your captive. Often they do what's called pooled risk. So it's you and 500,000 other people that have also set up their own captives. So that if, for example, a typhoon hits Florida, your one property in Florida can be offset by all the people paying in Texas that aren't having any problems. So they'll also pool the risk. So there are some really cool, bigger picture strategies, especially as you start to make larger gross dollar amounts that can really save you five, 10, 20, 25% off of your total gross revenue.

Dan: So what if you have 10 years, a hundred thousand a year, you've put a million in this

account, had no losses. Is there ever any way to get that money back? Take a tax hit. What happens to the money? If it's not used, you retire, you sell your business, et cetera.

Shauna: All the things, there's really, three separate options. You got to be all excited. Because I love this option. So the first one is, you've shut down your business. You're no longer operating. You still own the captive. I mean, it's your business. It's your money. It's your premiums. So you still own the captive. You can take the money out. You're going to pay a 20% tax. So if you got a 37% tax deduction and you get to pay 20% tax, you get to benefit of the difference. So 17%, whatever the difference between your then tax rate and your 20%, you pay tax. So that's one option. Second option is you can use the funds inside the captive to go and invest in something else. So if you're at the point of retiring, you can use those funds to buy stocks, to put it into life insurance, to a side note, buy more real estate. If you want to still be in real estate. You can use those funds to buy other things, other investments. The third one is you could just shut down the company completely wipe everything out every once in a while. It's only happened once in the past 17 years, but it does come up. The government will give C corporations because the captive is a secret. It'll give C corporations a 0% on dividends. So you could wait for one of those years and pull out all the money for that year. So there are options. You can take loans. I mean, there are things you can do, but again, guys, please don't take advice from podcasts. This is a much more complicated strategy than I'm making it sound on air here.

Dan: I've never heard of that one. Maybe I've heard it captive insurance. That sounds interesting. In case you get kidnapped, maybe, I don't know.

Shauna: You actually have [inaudible] insurance in there so you can do that too, if that's a worry for you.

Dan: So you make a claim, I guess the millions there, you have a claim. I don't know what it is. It's the 600,000 in spoiled. You'd make your claim, and then you get your 600 is to 600 tax free. If it were coming out as a claim?

Shauna: Tax-free because it's insurance payout, insurance payouts, aren't taxable.

Dan: Then I guess you're proving a loss. Do you have to write in the scenarios for the loss?

Shauna: Yes. So it's just like any other insurance from that standpoint. So post COVID, a lot of our clients that went with captive, active God, I want coverage. Because so many people just lost so much money on that. I mean, who would have predicted that. Like, I mean, active God, but we also see things like, for example, business interruption. Let's say you've got a property manager that you absolutely adore, and they're running all of your properties. Like it's not you, you've hired them. They're doing the job or like an admin assistant who's running all your backend. All of a sudden they get sick or they quit, or you get into an argument with them. You can have a staff replacement. You can have a warranties. So for example, you as a landlord are warranting one year on this plumbing job that you did. Something breaks. You can have warranties. So there's a million different ways and a million different types of policies that you can have really depends on your business. What's reasonable for your business. The place where the IRS gets really upset about this best case example. The court case that you read about when

you read these ones there was a cattle rancher. He had all of his cattle on top of a Mesa and a Mesa is like a very large mountain. That's flat on top. He bought flood insurance. You don't have a flood unless it's biblical level, Noah. You don't have a flood on top of a Mesa. It doesn't happen. So he got into serious trouble with the IRS because he was paying all these insurance premiums for something that wasn't a real risk. Like there was, there was no way it was going to flood. So you've got to use things that are real risks for your business. So that's why when you mentioned ransom politicians will get these policies for ransom specifically.

Dan: I mean, the cattle guy, I don't know what his thinking was. I mean, he could have put like, he's in the herd.

Shauna: Anything reasonable.

Dan: Yes, a meteor, I mean.... Put him in the Mesa. How's it going?

Shauna: Incinerated beef. Whatever you do, I think that's one of the biggest pieces here with IRS. Any deduction you're looking at of any kind really needs to meet three categories, ordinary, necessary and reasonable. So he lost on reasonable because there's no flood. He lost on necessary, there's no flood. He lost on ordinary because nobody else that had cattle on top of Mesa had flood insurance. So he lost on all three categories, ordinary, necessary and reasonable. So we go back to writing off the dogs. Is security for your person in a dangerous neighborhood, ordinary, necessary and reasonable? Like, you're good. So when you look at things you're writing off, those are probably the three main categories that you have to be able to explain to the IRS agent in a very clear, very concise, ordinary, necessary and reasonable. If you've got those three, you're probably pretty good.

Dan: How can the listener buy a boat in a tax advantage matter? You said something about a yacht. I can't remember if it was pre-recorded or after, but you were looking for that.

Shauna: Absolutely. So let's talk about yachts, boats, pontoons, whatever kind of boat you want. Let's go back to ordinary, necessary and reasonable. I'm going to give you two examples here. One's the boat and one's the Rolex. Because these are the two big things that we get asked about all the time. The boat and the Rolex. So in order to have a boat, what's ordinary, necessary and reasonable? Do you have a business where the boat is ordinary, necessary and reasonable, whether it's a yacht or not? So the client that had come to us, the specific case, when he first called us, the very first call, picks up the phone, doesn't even introduce his name and says, "I want to buy a \$1 million yacht. It has been my dream since I was five-year-old. Do you know how to make this happen?" Yes, we do. Then he told me his name. So that was the beginning of the relationship. I love it. So what he ended up doing was he actually bought the boat, created a chartering company, chartered the boat. He was a sales guru, like people would pay him to learn how to do sales from him. He would host events on his boat. It was a part of the event that it was being held on this million-dollar yacht. So for that business, him being on the yacht allowed him to sell tickets instead of \$5,000 at \$50,000 a ticket, because it was an experience and it was a thing. So for that business, ordinary, necessary and reasonable. That was good. The second one was the Rolex. The guys were always saying, listen, the women get the hair and the nails and the clothes and the jewelry and the purses. Like I want the Rolex and the cars. I want to write off the

cars we have. More than 6,000 pounds. You're good. We've got a thing. The Rolex. He loved collecting Rolexes, the old ones. Like the really pretty, the 1920s, like very designer style, all these kinds of things. How do we write off the Rolex? I want you to open a business that buys and sell Rolexes. Now you have to have some sales, so you can't buy it and just sit on it forever. Like you've got to actually sell some. He opened up at the time, it was eBay. He opened up an eBay store. He would buy Rolexes. He would wear them around town. He got to show them off. Because to him, this is now I'm showing off my business property. Would you like to buy this? It's advertising. So he got to wear all the Rolexes that he ever wanted to wear and then he would sell them. Side note, he made a pretty good profit because Rolex prices went through the roof when COVID hit. It's all about ordinary, necessary and reasonable for a business purpose. So what is the business purpose of what it is you want to do?

Dan: So if you bought the Rolex, I mean, how is it accounted? Wouldn't that just be inventory? Like how do they get an exact write-off there?

Shauna: Great question. Love it. So the question of inventory absolutely depends on how frequently you're selling. What the purchase price is of the original item. Okay. So generally when you have a business that does less than, I think they just changed the rules a few years ago, less than \$25 million worth of sales of gross revenue, you're allowed to write off the purchase price right away. So you don't have to capitalize or effectively capitalize for inventory. Now real estate has some very specific rules. So again, please take everything. Real estate has some very specific rules to it. Again, it depends on how often are you flipping if your business. So let's switch to real estate. If your business is buying and selling real estate, you're flipping in, out, in, out, in, out. You're doing typically about seven to 10 deals a year, like in, out, in, out, in, out. You can actually look at real estate as inventory. So it's not an immediate write-off. So really that's where the question, what am I trying to say? The question is there, how many are you flipping? What has been your method of sales over the years? If you're doing that many, it becomes inventory, more like a car. So it really depends. There's kind of these breakeven points. How many are you selling? What is the gross revenue of what you're selling? What industry you're in. These kinds of pieces.

Dan: So with the Rolex, I mean, what is that? Is that, if he does more than five watches in a year, like where- Less than \$5,000 per watch.

Shauna: Is specifically for the Rolex end. So a lot of the Rolexes he was buying because they were much older, some of them were classics, absolutely. I mean, I remember there was one, I think he bought it for 87,000 and sold for 200. I mean, that one went to inventory. So it really kind of depends on do you have audited financials, non-audited financials, how large your purchase price is, less than \$5,000, more than \$5,000. So real estate, generally, you're not buying a house for less than \$5,000. So generally that's going to go to inventory.

Dan: We've done it, but yeah, that's definitely a rare instance.

Shauna: There's the one that you can have to have inventory.

Dan: You needed the guard dog to go to that house.

Shauna: No doubt in my mind.

Dan: That's right. So let's touch on an example. We're on that house flipping conversation. Let's say a client comes to you and says, "Shauna, I want to get a tax plan done. What ideas do you have for me? I'm making \$500,000 a year in active income. I flip 10 houses a year, make about 50,000 on each one. So at any time I probably own five projects, maybe six. Again, I got that half million, what would be the creative plan that we already know what 1.0 is. Someone's built a half million dollar a year business, more than likely figured out the average write-offs.

Shauna: We're already doing kids. We're already doing the cars. We're already doing all the baseline stuff. So you're saying the net profit above those is still around 500,000.

Dan: The taxable income on the tax return form will be 500,000. So they did 11, really it was like 585 they made.

Shauna: So then you go to the next level. So what is the other spouse doing? So we're paying the kids. Are we paying the spouse? If we don't have the spouse on the business. Get the spouse on the business. What are we doing for medical expenses? Maybe that's only 5,000 a year. Maybe that's 50,000 a year with kids or it was breaking arms or braces or something. So who knows how much medical expenses are.

Dan: Could you pull on the medical expense thread just to kind of say how that's done Because I think usually the CPAs are like, no.

Shauna: Schedule A itemized deduction. So this is where we start to look at entity structuring and strategy from the actual entity type. So if you're a sole proprietorship, should you be an S-corp, a C-corp or a partnership? If you're an S-corp, should you be an S-corp? We run into problems. Maybe you need to go the other way and go back to sole proprietorship. So when we talk about medical expenses specifically, the most common area we see this is someone who is a sole proprietorship. So maybe an LLC or maybe no entity at all, which always kind of scares me. We need to get the attorneys involved, but let's say an LLC taxed as a sole proprietorship. As a sole proprietorship, you are allowed to hire your spouse, which is why I'm bringing the spouse into the picture. Your spouse can cover their spouse, which is you and any of their children, which means that now any of the employees of the company, typically it's going to be a husband, wife, two kids. Any of the employees of the company, their medical expenses now become a business expense for the company.

Dan: Literally the medical expenses.

Shauna: Literally the medical expenses become. Now there is one caveat here. This is if you have outside employees. Generally, in the real estate field, we don't see a lot of actual W-2 employees. Typically, we only see the wife and the kids, husband, wife, kids, whatever. And it's for this reason, because generally in the real estate end, we see a lot more contractors. You've got your plumber, you've got your electrician. They're not W-2 employed by your company. That is a very important distinction because anyone else that is a W-2 employee, whatever you do for

you and your family, you have to do for them. So this is where you start to get into, well, what do you have and what boxes have been checked. That we have to kind of work around here. Are there other W-2s or not? Now I'm going into the assumption at 500,000, it's probably you, your spouse and two kids or whatever that we've got on payroll, no other employees. The next thing to be looking at is, how much cash do we have to put aside and how much cash do we actually need to be able to buy the next property, go from a fourplex to a small apartment complex? How much cash needs do we have? Because for example, let's say out of that 500,000 of cash that you earned, you've got 100,000 of cash left and you need that 100,000 to go buy the next property, the next two buildings you're going to go buy.

Dan: But I mean, they would have been counting on paying about 160,000 in tax already.

Shauna: Nailed it.

Dan: Now they need 100. So go ahead, maybe you were getting there.

Shauna: We're getting the same thing. I love it. So step one is, do we or can we use life insurance as an option where I can take the cash, fund the life insurance, borrow the money back out of my life insurance so that I'm getting a double dip on my money? Because money inside the life insurance grows, guaranteed, typically. I can borrow my own money back out again and go buy real estate property with it. So that now gives me a double dip. One on the insurance side and one on the property side. If I want to triple dip the money, I can put the money into the life insurance, borrow the money out, put it into a defined benefit, cash balance, some sort of retirement program that I can also take a loan out of, take the loan out of that and now go buy the property. You can see how the web starts to form. This is where it's very specific on what you have, what you don't have.

Dan: That would be the 100 we were going to have no matter what. So that's like 100,000 that we were thinking of as after-tax dollars. We run it into one, two, or three places.

Shauna: Levels of whatever, exactly. If you really want to go to level four, and this is where we need to have your broker, your mortgage person, whoever your lender is that we're working with, buy the property, get it fixed up, go refi, get your cash back out and do it again. So cash flow and cash plays are one of the most important things, but you got to do it in order. If you put it in the property first, now we can only get it out once. So things have to be done in the right order, in the right steps to be able to really maximize the use of the single dollar.

Dan: So what else could be done to reduce, if anything, ideas that \$167,000 tax bill that person's going to have?

Shauna: So we've got the car. We've got the kids on payroll. We've got the dog on payroll, effectively. We've done the medical plan. We've done the 14 events of the master's exemption, the Augusta rule. Depending on where you live in the country, the rates for that can be anywhere. The smallest I've ever seen, which was way out in the middle of Iowa, was about \$500 a day. The largest I've ever seen was downtown Manhattan at 19,800 per day. So right. Big span. That can be really big dollar amounts. Of course, we kind of talked about the captive. So we could

always, depending on, you said gross income was only 500,000. So we're not ready for the captive yet. We've got to be at a million. Got to be at a million. What else would I look at right off the bat? Normally, we wipe everything out using those. We talked about defined benefit, cash balance...

Dan: You probably have gotten it pretty low because you pay the spouse what?

Shauna: A hundred thousand, 120.

Dan: Then they would pay a little bit of payroll tax and so would you on that, right?

Shauna: Yes. Kids, if they're under 18, there's no payroll tax. So depending on their job they're up to, I think, 110 or 112, there's no payroll tax.

Dan: A hundred and twelve thousand?

Shauna: Big chunks. I mean, it depends on how old the kid is. At seven, if you want to get into kids, we can talk about the details on kids. At seven, maybe you want to use them for modeling. Have the kid on the lawn in front of the property when you're taking the pictures and you can pay them \$5,000 to \$7,000 per, this is the deal. You're right. For a modeling shoot. If they're actually sweeping the floors and helping with plumbing, maybe it's 20 bucks an hour, 30 bucks an hour. Now we do have, and I think this is one of my favorite parts about little ones these days, is that you are allowed to pay children whatever fair market value is for whatever profession it is they're doing. So if you think about somebody that specializes in Airbnb listings or social media posts to get your properties out, filming the cool YouTube videos where the camera's flipping and getting you viral on TikTok, that kind of thing. Who's the best person in your family to do that? Probably your little ones. Your children, because they know a heck of a lot more about TikTok, Instagram, all those things than most of us do as adults. The current rate for that, at least in Arizona, where I am, is \$130 an hour. So if you've got kids that are in college and you're trying to pay their way through college. You're trying to pay those bills and not have it just come out of your pocket, put them on the payroll, have them run your social media accounts, \$130 an hour, you've effectively paid for their college through your business. So depending on their age, we've got lots of options.

Dan: Even if you are, I don't know, you're giving them, it's a part-time thing, you're paying \$35,000 to them. They're going to pay some taxes out of there, but their tax rate...

Shauna: At 10%, 12%, whatever their tax rate is.

Dan: It's a much lower hurdle than the flipper who's making the \$500,000. What is the company side of the payroll tax? Another 2% or 3% or something like that?

Shauna: Yes. Payroll tax is about 15.3% over the age of 18. So it's a chunk, but it's not anywhere near the total. Side note, depending on how big of an empire you want to build for your family, you can also force your kids to put their money into the 401k plan or the cash balance plan to start building them up with Roth 401ks so that they can get into real estate, start

flipping and selling things inside a Roth, build up their wealth. I mean, there's a million ways to spend it depending on what you're trying to do.

Dan: My head is spinning.

Shauna: But I think that's really the biggest thing. If I wanted anybody to take anything out of this, tax strategy is not, it worked for Bob, my neighbor, so it's going to work for me. It just isn't. Every time we look at somebody, a specific case study with tax strategy, we look at about 1,500 strategies just across the board. Not all 1,500 apply to everybody. You may not have kids, maybe I do, but it completely changes the tax strategy. So when we look at somebody in that \$500,000 taxable range, okay, out of the 1,500, maybe we need to apply 17 total. This one layered on this one, layered on this one, layered on this one, within six or seven, we've gotten you down to a 10%. How much fight do you want to do? Because the other side of this, I realized that I'm called the tax goddess. Everybody wants me to wave the magic goddess wand and poof, no taxes. You got to put in the work. You got to have the documentation. You got to get the kids on payroll, which means you need a payroll company. These things have to be done and they have to be done right. I'll be honest, if you're not going to do that, tax strategy may not be where you want to go. Hire an assistant who can do all that for you. Because if you're not ready to put in the work, the savings will come, but the IRS will too. So it's got to be done right.

Dan: Nothing is worse than the audit. Sometimes I just pay the freaking tax.

Shauna: Exactly, and people do that.

Dan: I'll be a two, a two out of 10 on the scale.

Shauna: That's okay, Dan. We get calls from people who say, listen, I'm a zero out of 10. I want something more than what my CPA is doing, but I don't want anywhere near a seven. That's okay. As strategists, we just need to know. Whatever you want to be, that's fine. We just need to know.

Dan: So as we talk about the tax goddess, you're very expansive team here. I do see the Forbes cover and you had the entrepreneur, which we can't see. Would you want a little mention of that for the audience who's watching on video?

Shauna: You are so sweet. Thank you. Yes. The benefits of being a goddess, I suppose, nobody wants to overpay their tax. Not a single person, I'm pretty sure, wants to overpay their tax. So we've been a feature on Forbes, entrepreneurs, CNN money. I think we've been on every major public TV station. We've been on tons of podcasts. I think we've done a little over a thousand interviews, whatever, everywhere. I've got two authored books. The biggest one that I think this one actually beat out thinking, grow rich on Amazon. So if you're interested, this one covers seven legal loopholes. So guys, if you're interested in learning more details on some of the tax strategies, the book also goes over it. So it's called the 6% life. The book also goes over the pitfalls, the steps, like what you need to do to really like crosses, he's got those eyes and yeah, it's available on Amazon. That by the way, is the average tax rate for our clients, 6.92%. So it's pretty cool. It's one of my favorite things to do is deliver tax savings. We're a little over 1.57

billion to date for our clients.

Dan: So who will be the ideal client in terms of maybe the level of income they hit a certain threshold. Now it's like, maybe I should start to really think about the tax strategy.

Shauna: Absolutely. I would say there's really three key factors. First one, if you're paying tax of 100,000 or more. If your gross income is at least a million and the third one, sorry to say it, but somebody that actually is willing to put in the work is that that really, really is a very strong key to your success. Honestly.

Dan: You're right. Is there a fee structure? Do you guys have a yearly kind of thing? Is it like a monthly commitment? Would you care to discuss that at all?

Shauna: Sure. Happy to give you some ranges. Because it's so custom, these things vary all over the place. The average for a tax plan. So tax plans are typically a one-time thing. It's a one-time fee once every five, seven, 10 years, just depending on how much changes you have in your life, how frequently you're changing what you're doing, what you're looking at. Average ranges somewhere between \$60,000 and \$80,000 for the one-time fee. Largest plan we've ever written was 186,500, but we saved them 112.4 million in a single transaction. So it really can vary all over the place. We do offer monthly. So you can, if you want, you can pay that on monthly. Most people pick us up on the monthly if they're also not so thrilled with their CPA and they want somebody who's going to integrate both the CPA and the strategy, because then you've got us on hand every month. We have a meeting. What do we need? What's going on? It's much more integrative versus the tax plans. You give us a snapshot. We give you a plan. We work with you typically for about two to three years after the plan is written. Because by that point, most people have integrated the strategies. They know what they're doing. Their CPA is on board. Everybody's good.

Dan: Is there any kind of long-term email drip follow-up where people are sort of getting... Because the tax code changes. The cost segregation is 60% this year. It'll be 40% next. I have friends who are raising \$5, \$10, \$15 million for deals, and they weren't even aware of the adjustment in the cost. I'm like, you can't have conversations. This is what the investors want. You don't even know that's happening. I mean, this was sometime last year when it was at 80%, but I'm like, this is a heartbreaking...

Shauna: Yes, absolutely. Sorry. Is it still...?

Dan: There you go.

Shauna: I get myself all excited and I start covering up the microphone. I'm so sorry, Dan. I'm heartbroken. That always kills me. To answer your question. Yes. We send out at a minimum once a year. Because everything changes at least once a year, minimum. But if something major happens. This is a really good year to talk about this. We have a political thing happening this year. We're going to end up with a new president. We have no idea who that is and which way that's going to go. But no matter which president is new, there's always changes in the tax law every time we get a new president. One way or the other. So when something major happens,

when it impacts a big segment of people, we also track every strategy per client. So out of those 1500, we've built our own software for this. If a specific strategy changes, we know exactly who we told that strategy to and we send an update. So really just very much, again, custom depends on the person and what you have and what you need.

Dan: Very high level service. So as we close, we had mentioned the 6% life. Are there any other book recommendations maybe that are relevant or maybe you just found impactful in your life?

Shauna: Impactful in my life, always. I love my main man, Mr. Tim Ferriss. Four-hour work week. Printed version, not the digital version. That's been my big impact. You're going to kill me. There's one that is specific about using life insurance to build empires. I think it's called The Power of Zero or something along those lines. I will get it for you so that you can get it to the audience. I'm a big fan. Now, I don't sell life insurance, just to say that right up front. Life insurance is a tool like everything else. It breaks my heart when I hear people say, life insurance. I'm like, no, honey. Tax-free for generation after generation after generation. It's one of the most powerful tools you can use if you're trying to build the Roman Empire for you and your family. If that's your goal, that's what you got to be looking at. Otherwise, I think the biggest thing is what your audience is already doing. Listen to the world. Go do your own research. Listen to the podcast. Listen to the TikTok. Listen to the YouTubes. Go listen and educate yourself. And then go find somebody who actually knows the details so that you don't misstep trying to do it yourself.

Dan: I have one more question after this, but would you like to give a plug? Where should listeners go to get more of the Tax Goddess?

Shauna: I'm fine. If you search Tax Goddess, it'll be taxgoddess.com. Of course, you can find us on YouTube, Instagram, TikTok, all the places. But taxgoddess.com if you need any help, have any questions, want to talk to the team, anything like that.

Dan: What is the kindest thing anyone has ever done for you?

Shauna: Best question ever. I'm going to go with my goddess who is my mama, my mother. When I went out into business, Tax Goddess is turning 20 years old this year. When I went out to business, one of the best things, kindest thing she ever told me, it's not going to sound kind, but it's absolutely kind to me. "Tough it up, buttercup. Life is hard. So have a good cry. Then pull up your pants and get on with it." Having that mentality in the back of your mind as a business owner, probably one of the best things you can do for yourself because life is tough and it will throw at you COVID and broken pipes and you name it, it'll throw it at you. But if you can pull yourself up, you will be able to do it for the rest of your life and you will absolutely be successful.

Dan: I love it. I have several pages of notes. My head is still spinning. I'm impressed and I appreciate you coming on the show.

Shauna: Thank you so much for having me. It was nothing but absolutely enjoyable.

Automated Voice 2: The REI Diamond Show is sponsored by Diamond Equity Investments, a private equity firm focused on buying and selling residential and commercial property throughout the United States. If you are an accredited investor seeking double digit returns, you can sign up to review Diamond Equity's passive investment opportunities at www.fundrehabdeals.com. If you're an investor who is seeking deals that you can buy, fix and flip, please go to www.dealswithroi.com.

Automated Voice 1: 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.

[End]