THINGS THE RICH DON'T WANT YOU TO KNOW

A GUIDEBOOK FOR PEOPLE WHO ARE WORTH OVER $1,000,000

By Noah Kagan

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Introduction

"Rich people borrow. Poor people earn."

Congratulations. You're probably not poor. Yay.

You found the right place: this book is written for you if you make over $100,000 and want ways to reduce your taxes, save more money in general and make more. It's exactly the book I wish I had a few years ago.

When I made my first million dollars, I waited around for an award ceremony that never happened. At that point I started looking around for books, websites, podcasts, or videos to shed light on what do "rich" people do to reduce their taxable income use their money to make even more, and how to save more money now that I'm earning a lot more.

But I was shocked to find that there was nothing around. There were a shit ton of stories about how to start a business, how to make $1,000 a month, seven habits for manifesting money—but what about the guys and girls who actually have a little bit? Stumped, I bent over and paid my taxes like a good citizen.

But I knew the super rich understood something I didn't. They had the "bible" of rich shit you do when you have bookoo bucks. I wanted in.

Here are a few examples of what they were doing:

- Donald Trump has saved $100 million+ from doing land easements
- Most yacht owners expense 50%+ or more from their boat by moving into a charter
- Mitt Romney used the IDGT to minimize his $100 million estate taxes.

How do they do it? Answering that question became my mission: to uncover what super rich people are doing that us commoners don't know about, so we can take power back for ourselves.

But there wasn't a central repository of this knowledge. So many financial advisors were poor; they gave out information, but hardly any of them followed those strategies themselves. Furthermore, when they did give me advice or when I found suggestions in blog posts, it was unclear how these things actually worked.

So I kept asking around to find out what others they did, and took notes. I've interviewed lots of millionaires, wealth managers, and tax strategists to figure out what to do with my own money, and here I'm sharing it with you. Everything in this book is a validated strategy for high earners that I've personally used or talked with someone directly who's done it for themself.

This book is NOT for:

- People who make $10 / hr, watched a YouTube video, and expect to make six figures in the next six months from crypto.
- People making under $100,000 in a company or in their own business
- People who are not willing to read #ha
- People outside of America. Sorry, but this book is mostly from an American perspective, because that's where my expertise is. Maybe a future edition will include international stuff.

This book won't be saying it's good or bad to make money, or that money is evil. That's for another author. And this book is not about whether as a US citizen you should or should not be paying a lot of taxes. Personally, I see the government as the most inefficient business ever and I want to restrict them from having my money, encourage them to balance a budget, and find sustainable and simpler ways of taxing US citizens. But that's another book.

This book provides specific, actionable, and validated tactics, strategies, and mindsets for what to do once you have a little bit of money.

There are three main things for rich people I've identified and will concentrate on in the following pages:

1. How rich people created wealth and how they've kept it.
2. How do they optimize their personal savings and their business income.
3. How to save on taxes.

Looks easy on paper. But like me, you are probably busy and don't have as much time to do everything you want to do. And you are going to read a lot of tactics in this book and think, "Oh that's great, I wish there was someone who could do it for me." I've got you. At the end of this book, I've listed every person who's helped me or I've worked with and can recommend.

This book has two key components:

1. I have done everything or have a close associate who's done the exact thing we recommend in the book.
2. The book is structured from easiest to most complicated tasks. Baby steps people.

I am not a lawyer or CPA. I'm just a guy that's started some companies and wanted this information for myself. I put it out there and turns out a lot of other people want it as well. Enjoy.

If you have any strategies I didn't include please email me, noah@richpeoplebook.com

Step 1

Organization and Basic Saving Strategies

"I've been rich and unhappy and I've been poor and unhappy. Believe me...I'd rather be rich and unhappy ANY DAY!"

Some of my richest friends are financial noobs. They blindly trust a wealth management firm, shockingly hold everything in cash, or they don't do anything. It's not that they aren't smart—there's just so much information out there and these people are experts in their own field, not the field of finance. This section is to help those rich people do the basics, like tracking finances, searching our small ways to save and make your money work, and using basic tax strategies.

If you're somehow rich without doing any of these things, I hope you enjoyed living off your parents. Since you're reading this, that's probably over. Good luck out there. You'll probably want to follow this advice

The following are basic saving, earning, and tax strategies to optimize savings and earnings that work for me. We don't all have a trust fund. Yet. We'll get to that.

High-yield checking accounts

Don't be a dumbass like me.

For the past five years, I've been a dumbass and have had 100% of my cash at Chase. They are a great bank, but they offer you a low interest rate on a checking account.

But new bank accounts are matching the federal treasury bill interest rate and passing those savings on to customers—meaning there are checking accounts you can get 2.05% annual returns. And it doesn't look like the Fed will lower interest rates any time soon.

I've moved 80% of my cash to accounts with a higher interest rate and now receive great return every month without doing anything. Marcus.com, Ally.com and Amex Personal Savings are offering near 2% on personal bank accounts. Low risk and downside—highly recommended. There's no minimum, you can withdraw and transfer money up to six times a month, and they are FDIC insured.

Another approach to consider is money market funds like VMMXX, which automatically rise with increasing interest rates. They're not FDIC insured, though—but if Vanguard goes down, we've got bigger issues.

CDARS, or *https://www.maxmyinterest.com/*
Automate interest.

The first thing you do should be to make your money work harder without doing any work yourself. Get better returns for literally doing nothing other than a few clicks.

MaxMyInterest is a service a close friend of mine uses. The main thing it does is automatically move your money into the highest interest rank banks online. There's no risk and they help maximize your earnings without doing a bunch of work. It also helps you reduce your risk exposure by moving your money into multiple banks to stay underneath the $250,000 FDIC insure limit.

CDARS is a similar service that spreads your money in CDs across multiple banks.

This company takes money from your main account and then spreads it evenly across whichever banks give you the highest return. Getting around 2% at Marcus works for me, but this is for people who love to optimize.

How I track my finances
Well. And you can too.

Here is how I allocate and track my finances. There are a ton of ways to do this and you should find a way that works for you, but I'm going to share mine in hopes it helps you.

1. Asset Allocation

Asset allocation is a tricky subject and I didn't really start embracing it until I got older.

The simplest two things to figure out are what drive your strategy:

a) How risky are you?

b) What are your goals?

For myself, I am not risky at all and I don't want to worry about my money. I don't really think about long-term goals, but am starting to plan towards how much a family will cost. Otherwise, I just focus on making sure my net worth grows and I reach my goal of $5,000 a month in passive income.

My asset allocation is as follows:

Allocation	Item	Actual	Actual %	Delta	Target $	Delta $
35%	cash		45%	-10.00%		
30%	real-estate		26%	3.50%		
25%	long-term		21%	4.11%		
10%	risky		8%	2.39%		
100%			100%			

Things to note:

1. I am much heavier on cash than almost all my friends. Why? Because I don't want to worry. I make money at SumoGroupInc.com and my net worth is what helps me sleep at night.
2. I don't re-allocate immediately. If you are way off from your allocation goal, then I would dollar cost average instead of dumping the money to fix the delta all at once.
3. If you want to invest in real estate, I always recommend PeerStreet.com, as you can make debt loans to professional investors. More on that later.
4. I lump my retirement and stock portfolio in long-term. I'm around 90% Vanguard total stock market and index funds for those amounts.
5. Each month, I take around 10% of my salary and have it automatically invested into large cap (VTSAX) and small cap Vanguard funds (VSMAX). (VBTLX is another great option for a total market fund.)
6. "Risky" investments include Bitcoin, real estate deals I am not sure I'll get money back, angel investing, and a bar—basically things I never expect to make my money back from.

Most people in their 20-40s that are super rich have a profile more like this:

Asset	Allocation	Reasoning
Cash	10%	Inflation will eat the money up and long-term stats show market is positive return. What most do is keep around six months of emergency money in their checking account.
Real-Estate	10%	Down payments are expensive and more people are renting. Also, it's a hassle to deal with managing.
Long-Term	70%	Very popular are Betterment, Wealthfront, and Vanguard. No extra work, relatively safe in the long-term, and produces solid returns.
Risky	10%	Most wealthy people have a few restaurants, startups, and other risky ventures that produced 100x returns. But they realize most will fail and allocate accordingly.

2. Monthly Tracking

Here's a template I've been using for the past five years. Get your own copy at RichPeopleBook.com.

						Current:	9/1/2016
Current Finances					vs. last month		
Assets		**current**	**previous**	**change**	**%**		
Cash Savings		350000	344000	6,000.00	2%		
	Business	250,000	240,000	10,000.00	4.17%		
	Personal	100,000	104,000	-4,000.00	-4%		
Vanguard		32000.00	30000.00	2,000.00	7%		
Schwab 401k		55,441.07	55,853.13	-412.06	-1%		
Schwab		25,234.00	22,000.00	3,234.00	15%		
PayPal		5,171.19	5,354.86	-183.67	-3%		
LendingClub		9,913.20	9,883.29	29.91	0.30%		
Coinbase		8,028.80	8,469.11	-440.31	-5%		
Brushy		315000	315000	0.00	0%		
Totals		**800788.26**	**790560.39**	10227.87	1%		
Liabilities							
Mortgage Brushy		215,016.23	215,016.23	0.00	0%		
Credit Cards							
	Citi	5,152.44	13,137.78	-7,985.34	-61%		
	Capital One	17.83	0	17.83	0%		
	AmericanX	39.00	0.00	39.00	0%		
Totals		**220225.5**	**228154.01**	-7,928.51	-3%		
Net Worth		**$580,562.76**	**$562,406.38**	$18,156	3%		
Next Steps	**Status**						

My process is to copy the current to the previous column so it zeroes out. Then I go through each of the accounts manually and update them. This takes about 30 minutes and the act of looking through every account is intentional.

Then, at the bottom of the finances, I make a list of next steps and status of action items I want to accomplish. I also take time to appraise how my asset allocation is looking and if any adjustment or rebalancing is needed.

There are other alternatives, like PersonalCapital.com, and Mint.com which do all the above automatically. I was the #4 employee at Mint and have tried Personal Capital, but I prefer to do this manually as I feel it makes it more intentional and I miss less. Plus, it's a fun habit I've automatically added to my calendar on the first of the month.

The $5,000 budget

Live like you're only kinda rich, and create passive income.

A few years ago, I imagined that my company was going under and I had nothing to show for it. It was more a fear than a reality, but I wanted to plan for it just in case.

I worked backwards from what my monthly living expenses would be:

$3,000 a month in rent.

$2,000 a month in fuck-around money—aka entertainment and food. Leisure.

Mind you it's always better to have a low monthly overhead to have less pressure and more flexibility in taking risks. I've heard recently of some billionaires who only rent one residence to have less tax exposure, no nexus of living (so government can't say you live somewhere specifically), and flexibility with finances to move places.

So I wanted within 12 months to create $5,000 of net profit completely outside and independent of my company—in passive income. When I'd identified my target, I created a spreadsheet of how I could get to it:

	A	B	C
1			
2	**Living Expenses**	**Amount**	
3	Rent	$3,000.00	
4	Cars	$50.00	
5	Food	$1,000.00	
6	Entertainment	$950.00	
7			
8	Total	$5,000.00	
9			
10	**Income**	**Amount**	
11	2 Long-Term Rental Condos	$2,400	
12	AirBnB profit	$1,250	
13	Interest from Marcus.com	$2,000	
14	Amazon affiliates	$500	
15	PeerStreet.com interest	$900	
16	Dividends from stocks	$1,000	
17			
18	Total	$8,050	
19			
20	Tax Rate	37%	
21			
22	Take Home amount	$5,072	
23	Target Monthly Income	$5,000	
24			
25	Results	YAY	
26			

1. Figure out for yourself your minimum amount of money you need to live. Use the $5k budget template at http://richpeoplebook.com. What's important for yourself is just work backwards from worst case scenario of minimum amount you'd need to live to sustain your ideal lifestyle. Personally, I'd try to get your minimum as LOW as possible.
2. A question I got was how did I generate the money from the things above, so I'll break it down for you:
   - **2 Long-term Condos:** These are work-live lofts. I bought each of them for $300,000 with a mortgage. After all expenses, they cost me around $2,000 a month. I rent them out to my company at $3,000 a month. Finding property takes A LOT of time. Anyone can buy, but if you want to invest and make a profit, you should expect to put in some work. I found one of these and bought it the first day on the market. For the other, I hit up the owner since he was my neighbor and made an irresistible cash offer :)
   - **AirBnB:** I wanted to experiment with AirBnB and knew a friend was doing it in a specific building in Austin. A unit in his building came on the market for $315,000 a few days after I committed to doing it. I bought it site unseen and have been mostly profitable ($1,250 a month) for the past 3 years. From a pure return on time doing more AirBnB is not a great use of my time compared to working on Sumo.com but I just love hosting people.
   - **Amazon Affiliate:** On Okdork.com I post books and products I recommend. The monthly income varies depending but usually brings in some nice spending money.
   - **PeerStreet.com Interest:** I've invested in properties via the site and this is monthly revenue I receive from the loans I've made.
   - **Interest from Marcus.com and dividend from stocks:** Self-explanatory :)

Discounts

You're not too rich to ask for deals.

When I was meeting Nick Kokanos, the co-founder of world-renowned Alinea restaurant group, he was telling me about a piece of construction that was delayed. He called the contractor up, said he was annoyed, and asked for a discount because of the delay. He got 10% off the $3,000+ purchase for one phone call.

I asked Nick, "Why did you do that? Aren't you rich?"

He said, "Doing this is why I am rich!"

Don't think it's beneath you to ask for discounts; discounts can compound over many, many years.

Here's specific things you can do today:

1. **Credit card statement:** Contact everyone of your providers and just ask for a discount for being a loyal customer. You'll be surprised. We've done this at SumoCon where people brought up their credit card bills and spent 30 minutes just sending out emails. Most people saved at least $1,000 a year doing that. Go check out your bill now.
2. **Monthly to yearly billing:** Email or call any of your providers and move from monthly to yearly billing.

3. **Propose solutions:** My boxing trainer charges $200 per hour, which I said was too high for me. So we discussed $100 an hour and doing two training sessions a week. Deal done.
4. **Use a discount service:** BillCutterz.com is one service I've used to get my internet bill down. I've tried others like asktrim.com and getservice.com as well. It doesn't cost you anything and the majority of the benefits are compounding because you'll get that rate indefinitely.

Pausing

Use it or lose it.

This is a new one to me. I'm traveling for work a lot this year, so I called up my car insurance and internet providers. I told them to pause service while I travel, and have easily have saved over $500 this year. You can do the same with most of your service providers.

Primary residence

Everything is not bigger in Texas.

A few years ago, we made around $1 million in profit from our payments company. There were three partners in the company, and we each received $300,000. But after taxes I only had $150,000 while another partner had $189,000. What's the difference? He was living in Texas while I was living in San Francisco.

Many states do not collect state income, because it encourages people to live in the state and those people make the state income in other ways (higher property taxes, gambling money, higher business tax, etc.). This can be a significant benefit if you have a high salary or you are going to be expecting a windfall from a company going public or selling your business.

If you travel a lot, then I'd consider where your home base or "nexus" (the government term for where you live) is situated. These states do not have income tax:

- Wyoming
- Washington
- Texas
- South Dakota
- Nevada
- Florida
- Alaska

For clarification, what is considered "living" in a state?

In theory, you need to be in that state for more than half the year (at least six months and a day, or 183 days), although you might still have to file a partial-year tax return in another state.

For some states like California, they will tax you if they find you working there even for a month out of the year. That can cost you significantly.

Puerto Rico

At least the weather is (usually) nice.

Warning: This tactic may be effective as a way of saving money, but I don't think it's worth the lifestyle change.

I have around ten friends who've made money on crypto, cash for gold, and online SEO who've moved to Puerto Rico for significant tax savings. The positive is that if you travel a lot in general this is a great deal; the negative is that you have to still live in Puerto Rico. It wasn't a bad place when I visited, but how much is it really worth to live there?

I don't want to spend too much time on this because there's a good chance you know this already. But if you live at least six months a year in Puerto Rico, you can claim a 0% personal tax rate and a 4% corporate tax rate. This is because the US excludes Puerto Rico from its federal tax collection; they call it Act 20 and Act 22.

You can live where you want the rest of the year, but as long as you're in Puerto Rico at least 183 days a year you'll get the low rate. But you must bring your US business to Puerto Rico and your clients must be outside of Puerto Rico. This is so locals can't claim this tax exemption.

If you make $100,000 in San Francisco, you lose 37% to federal tax and 13% to state tax. You only make $50,000 in actual money available. But if you move to Puerto Rico for half the year, you only have to make $52,083 to end up with the same amount of money.

This is almost too good to be true, and there are a few catches with this tax code. But if you can meet the requirements, the payoff is huge:

1. You have to get a house in Puerto Rico.
2. You must donate $5,000 a year in Puerto Rico
3. Only service-based business types qualify
4. You must be doing work outside Puerto Rico
5. Hire a Puerto Rican worker

You also need to pay yourself a salary when living in Puerto Rico based on a "reasonable compensation standard. This gets taxed at 33%, which might begin to offset your gains if you take a high salary. More reason to live by the $5,000 budget and invest in your business!

*If you want to read more, go to my links at richpeoplebook.com.

Another alternative is very risky, but I've heard of multiple people doing it. The strategy is to go to Puerto Rico, declare yourself as a student there, and take your classes online. You get to register that you are living in Puerto and you don't have to be there. But it's not worth it if you get caught.

Your to-do list: Step 1

Your first steps toward getting richer are doing the basics better than the average Joe.

Make your money work harder, no slacking:

- ☐ Move your money into accounts with the greatest yields:
  - ☐ Use maxmyinterest.com to automate the moves for savings.
  - ☐ Move your cash to high-yield checking accounts like Marcus.com.
  - ☐ Figure out a system for tracking your finances that works for you. You can use personalcapital.com, betterment.com, wealthfront.com, or mint.com for free.
  - ☐ Make your $5k budget and stick to it.
  - ☐ Get last months credit card bill or use a service like blissfully.com and review everyone of your monthly charges. Hit up the main bills and ask for 10% off.
  - ☐ Pause services when traveling.
  - ☐ If you travel, explore changing your primary residence location.

For a copy of my $5k budget and my monthly finance tracking, go to richpeoplebook.com

Well done, my good rich friend.

Step 2

Travel Smart

"You're a rich guy acting like a poor guy."

As a newly rich person and presumably successful businessperson, you're probably traveling often for business or pleasure. If you're not, you should be.

If you have some cash and time to put up front—and if you're reading this book, you either do or didn't read the introduction—you can fly anywhere in the world for almost free. Even if you don't, you can still go to the airport and use those lounges.

And what are your thoughts on Montana?

Fly for nearly free

Black market fun!

A friend of mine recently flew round trip to Tokyo for $300 in business class. How? He got a companion pass that gives him unlimited, nearly free flights (pay just taxes) to anywhere the airline flies in the world. This is available on most airlines, and the only catch is that you have to fly standby. So what is a companion pass?

Flight attendants have always had access to companion passes for family members and significant others. This enables those people to fly for nearly free and is a great perk for the attendants. Now there are black markets where they sell these passes to friends and businesspeople. This is not "illegal," but definitely a gray market that is happening. And you can take advantage of it.

You pay anywhere from $5000 to $8000 a year and the broker will get you added as a family member on the flight attendant's list. This now gives you access...awwww, sweet access.

So now you get access to a portal to see flights on the airline you've bought into. This applies to almost every airline. The catch is you can only fly standby—meaning if the flight is full with paying passengers you can't get on the flight.

But:

a. You can see what the flight loads look like at any time
b. If there are seats available in business class you can get that seat
c. You only pay the taxes on the flight

This has worked out very well for close friends of mine. They save a ton of money, get business class seats, and the pass gives them tons of flexibility since you can book last minute and cancel without charges. You may not always get business class, but you will likely make most flights. #richpeopleproblems

There are a ton of brokers who sell these. I can't mention any, but if you google around or ask friends who fly a lot you'll find someone. One person I know of recently just asked flight attendants in the airport; that's a big risk and I wouldn't recommend it, but it worked for them.

Lounges
Free drinks!

This book is 100% not about how to hack airline travel, which actually means sign up for a shit ton of credit cards. But there is one thing I highly recommend: get a Chase Sapphire reward or Amex Platinum card. They both cost $495, but you're rich so you can afford it.

Having an Amex Platinum card gets you a Centurion Priority Pass; Chase Sapphire also gets you a Priority Pass. That means it's time to hit the lounge.

Why is it worth it?

1. You get the Priority Pass, included which gives you access to lounges across all of America.
2. With Amex Platinum, they have Centurion lounges across America. They're amazing. Say hello to unlimited free alcoholic drinks—I'm talking top shelf stuff.
3. You get $300 in travel credit back to you. So if you spend on Uber or United, they'll reimburse you.

There are other ways to game the travel system, but I know when I was younger and poorer I'd always be jealous of those people walking into those exclusive lounges. Don't fret. Now that's you.

Southwest lounge hack
Balling on a budget.

Okay, so let's say you want to go to a lounge but don't have a flight that day, or you just arrived at an airport and they only allow people with an outbound ticket. You might have to meet a contact on their layover, have some time to kill, or, heck, a few friends even use them as co-working spaces.

Well, you can buy a Southwest refundable ticket on points, go into the airport and/or lounge, and then cancel the ticket. You'll get 100% of your points refunded, you've done nothing illegal, and get to the enjoy the benefits of the lounge!

Low car registration fees for life

Montana, tax heaven (or haven?)

A friend has a large RV and many pricey cars. He created an LLC in Montana and has all his vehicles in that location. Why? Because there is no sales tax on new car purchases and very low yearly fees in Montana.

Montana also does not charge registration fees, so many people find reduced long-term costs by creating an LLC in the state.

For $800, you can create an LLC in Montana and move all your vehicle registrations there. The lack of yearly fees may only save you $200 a year, but think long-term. Multiply that fifty times the number of cars you have.

2 cars * 50 years * $200 year = $20,000

This also helps protect you against lawsuits with your cars since they'll be suing an LLC and not you personally if you ever get into any accidents.

You don't even have to disclose who owns the LLC, and you don't have to pay yearly for LLC renewal. You only have a $49 / year registered agent fee and fees are very low.

The service I recommend, 49 Dollar Montana Registered Agent, is found at https://www.49dollarmontanaregisteredagent.com/montana-registration.

You can also use service like awesomewyomingregisteredagent.com to register your vehicles in another state.

This strategy has been becoming more popular, and with more use comes more scrutiny. It's still worth exploring right now, but I wouldn't be surprised if Uncle Sam tries to crack down on this in the future.

Your to-do list: Step 2

For someone with some money, there are a few relatively easy hacks that will get you traveling much better—and much cheaper.

- ☐ Buy a flight attendant companion pass—Google search and you can find someone.
- ☐ Pony up for lounge access via credit cards—it's worth it. I use my Amex Platinum card for access to the Centurion Lounge; also consider PriorityPass.com and American Airlines Admiral card.
- ☐ Buy refundable tickets for Southwest lounge access to make airports your office.
- ☐ Register your cars in Montana using 49 Dollar Montana Registered Agent

Now you're traveling like the rich person you are.

Step 3

Get Some Help

"Win Win Win"

- Jay Rock -

People keep telling me there is no "i" in team, but there is definitely an "i" in rich.

Still, the rich know that having a team to maximize your time and money is a good thing. Create a group of peers and professionals to help.

Plus, it's good for the ego to have a personal assistant.

Hire an assistant

It's like having a mom work for you. Or is a mom.

Time is money, and for hard-working high-earners, time is short. So I've included one of my favorite ways to save time here, too.

Every millionaire I have interviewed uses different services to save them time. I've personally paid $100 via Taskrabbit for someone to stand in line and pick up fried chicken at Howlin Ray's in Los Angeles.

Your time is most valuable asset. You're rich so you know that, but you also probably aren't optimizing your time to really spend it on a) the things you really want to spend it on, and b) the things that maximize your wealth.

Paying for assistants is one of the best ways to get returns on your money. Here are the main ways I personally use them:

- Booking my flights
- Scheduling my meetings
- Purchasing different items for me
- Preparing notes about people or companies I am about to meet with
- Packing all my belongings
- Selling my items or returning them

Where to find an assistant:

- **HireMyMom.com:** I love hiring moms because they are stable and know how to handle children like myself. This is a great site and my current assistant was found through here.
- **TimeEtc.com:** Great site that has multiple people be your assistant.
- **American Express Concierge:** Surprisingly good resource and included in your AMEX premium. I've used them for itinerary planning on international travel.
- **Referral:** Ask someone else who's wealthy or busy and they'll potentially recommend their assistants.

Services that do specific, automatic tasks:

- **ScheduleOnce.com:** Awesome tool for letting people schedule time with you. Reduces the back and forth.
- **FlightFox.com or Abroaders.com:** These services can help find the optimal flights for you and your team. They also can figure out the best way to maximize your credit card points with flights.
- **BillCutterz.com:** As mentioned before, it automatically negotiates your major bills. You don't have to do any work and I've saved around 20-40% on my internet and TV costs.

Here are a few of the questions I ask to filter if an assistant is good:

- I've given you a list of tasks (organize holiday party, drop something off at USPS, research flight times, pick a gift for a partner of ours or get the team lunch). Please prioritize and explain why.
- I want to interview the founder of Waterloo Water for my podcast. How would you get a hold of him?
- Someone wants to meet with me. Please write out a rejection email.
- I want to take my girlfriend on a weekend relaxation trip to Ojai, CA. Please show me our itinerary.
- I stayed at the Westin in San Diego. Please find out what mattress and pillows they use.
- I am trying to indulge myself with a nice present. Please research me and let me know what you'd buy me. Budget: $500
- Please take this typing test and let me know your words-per-minute: http://speedtest.10-fast-fingers.com/

Hiring a wealth manager

Even if you're already savvy.

A friend of mine worth $100 million told me he has a wealth manager. I was a bit surprised because he is extremely financially savvy and asked him why. He started sharing his reasoning and it made total sense.

Based on his advice, I've started looking into using a wealth manager for a few key reasons:

1. **Richness of knowledge:** Wealth managers are actively working with a bunch more rich people and have more new strategies around tax, wealth preservation, and growth than you'll be able to find yourself.
2. **Goal setting:** They can spend more time helping you think through and optimize toward your goals.
3. **Network:** They have access to exclusive investment opportunities that are not available to regular people, such as Conservation Easements (more on that later) and private investments.
4. **Expertise:** Wealth managers aren't all-or-nothing propositions. You can give them some portion of your wealth to manage, or just hire them to review specific structures like estate planning while the majority of your money can be in index funds. Plus, you save some money in targeting the assets you use them for.

Most wealth managers take around 1% of the assets they manage for you.

In the resource section you can see the wealth managers I recommend.

Get a second opinion on your taxes
(every year)

I'm assuming you already use a CPA for your taxes, which is the smart move for the vast majority of millionaires and will pay for itself—and then some—in found deductions. But consider this: a few years ago, I sent my tax returns to another firm and paid them some money to review the returns. They were able to find some credits and deductions that my original firm had missed. This easily paid for itself. It's so simple, yet it's one of those things that we just don't bother to do. And it works!

Too often we find one accounting firm and just stick with it. There's nothing wrong sticking with a wife who's amazing, but you should always double check your finances.

To get a second opinion, take your previous two years of tax returns and send them to one other firm besides your existing one. See what other credits and deductions they can find. I have listed in resources firms I use, but you can—and should—ask business friends for a referral to what what tax firms they use.

There's minor extra cost for another firm reviewing, but you can retroactively amend your taxes for the past four years. You don't have to do any extra work, and it's likely that this will easily pay for itself.

Create your rich friend group

You're a cool kid now.

Recently, I was invited to a finance group on WhatsApp. Everyone in that group has run a business and is personally worth over $1 million cash. Creating a support network with like-minded people has been invaluable, and I highly recommend it.

Specifically, the group is great for:

- New finance opportunities. I found out about Marcus.com there.
- Support on finance questions.
- Open discussions on the economy and best practices.

Where do you find this rich friend group if you are alone?

1. **Join a local group:** If you don't have any rich friends, you can at least go to one EO (entrepreneurs organization) meeting as most people there have certain requirements to join.
2. **Ask your service providers:** Your accountants, lawyer, and banker likely work with wealthy people. Ask them for introductions.
3. **Check out groups like TropicalMBA.com or Ecommercefuel.com:** Lots of millionaires and people running companies are members.
4. **Reddit.com/r/fatfire.** Look for people whose posts you admire and organize a small group of the ones you are most impressed with.

Your to-do list: Step 3

Doing everything yourself isn't feasible, nor is it smart or enjoyable. Consider hiring these people:

- ☐ A competent assistant (who may or may not be a mom). Use HireMyMom.com or TimeEtc.com to find assistants, and give them a test to make sure they are capable.
- ☐ A wealth manager. Adviceperiod.com is a good place to start.
- ☐ A second accountant. I recommend Teegardin, the firm I use in Texas.
- ☐ A group of financial peers. Join a local entrepreneur ground, ask your lawyer or banker, join TropicalMBA.com or Ecommercefuel.com.

Step 4

Always Use Protection: Insurance and IRAs

"Earning money is the best form of wealth preservation."

- Felix Denis -

Operating without insurance and a plan for the future is like having sex without protection: most of the time it's going to be fine—but the one time it doesn't, you're fucked (see what I did there?).

But as you might have guessed, the rich just do it better—avoid restrictions on IRAs, know the better options for insurance, and have their shit together.

Umbrella insurance

A friend of mine is very wealth. He's currently having his umbrella insurance pay for personal claims against him. Legally I can't go into the details but it's saving his ass since umbrella insurance covers above and beyond your standard protection.

If someone comes over to my place, falls, and then sues me for $2 million, I'm totally fucked. Luckily, there is umbrella insurance, which covers you on top of your regular car, liability, and property insurances.

When you acquire a certain amount of wealth (for me, it was when my net assets surpassed $1 million), I recommend umbrella insurance.

Consider this scenario: You're renting, and someone falls at your property. They know you're well off and they want to sue you and collect real money. Fortunately, you have property insurance; unfortunately, you have a limit on that amount. You're liable for whatever is above that limit—unless you have umbrella insurance to save you.

I got mine from Travelers.com. It's surprisingly cheap; I pay around $1,300 a year and it's basically a high-level insurance in case anything goes wrong on top of the insurances that I already have. If someone falls in my condo, if someone tries to sue me for libel, or God knows what what else, it's worth the $100 month in protection.

Free health insurance

Thanks, Obama.

You can get Obamacare even if your net worth is really high. This is something friends of mine do. If your yearly net income is under $64,080, then you qualify for free health insurance under Obamacare.

What's insane about this is:

a. It DOES NOT take into account your net worth

b. If you make $1 over the amount then you have to pay for your own health insurance

I am not sure how long this will last. But it's a great thing that many rich people take advantage of, especially if they're turning income into assets to compound in the future—therefore keeping their taxable net income low.

You can go to this link to sign up for ObamaCare: https://www.healthcare.gov/

Self-insuring your car

Gambling is fun.

Friends of mine hardly drove and were paying $150 a month in car insurance. They looked it up and were able to make a deposit of $25,000 with the city to then be self-insured.

In most states you can self-insure three ways: surety bond, self-insurance certificate from the state's department of safety, or make a deposit of $25,000 to 50,000 with a county judge to get a verification certificate.

I would not encourage this unless you have a lot of cars you don't drive or drive on very short commutes. You won't be eligible for the aforementioned umbrella insurance and the liability is high. But for the others of you out there, it's a great way to reduce monthly overhead on your automobiles.

Backdoor Roth IRA

It's good to experiment.

There is an income limitation for Roth IRAs: If you are single, your gross income has to be under $135,000 with reduced contributions starting at $120,000. But you can do a backdoor Roth IRA to avoid that income limitation.

You can't contribute directly, but you can convert at any income level into a Roth IRA. If you convert, you have to pay tax.

For example, if a friend converts a traditional IRA (to which contributions are tax-deductible) to a Roth IRA (no tax break, but earning and withdrawals are usually free), he can now pay income tax to convert it. The way around it: If you are making new contributions and don't have another IRA, create a fresh IRA—make a non-deductible contribution into an IRA and then convert it into a Roth IRA later.

The government is fine with this. Let's say you have a 401k and leave your job. You are going to roll your 401k into a traditional IRA—that's pre-tax money into pre-tax, so no taxes have ever been paid. If you transfer that IRA into a Roth IRA, you have to pick up the income tax bill.

Solo 401k (Checkwriting IRA)
Just for you.

You are limited with 401ks at companies if you have employees because:

1. Once you offer them you can never take them back
2. There are charges for setting up a 401k
3. Everyone must get the same contribution to the 401k percentage.
4. Most IRAs and retirement accounts limit what you can invest in

Boo. But there's another option.

Checkwriting IRAs allow you to make an investment anywhere—crowdfunding, crypto, real estate—at least as long as you don't break the self-dealing rules (things you are going to consume yourself).

The reason these weren't popular for a while was self-dealing. Now they gaining popularity because there are limitations within the accounts and people are more likely to live by the rules of these IRAs.

A Solo 401k is a profit sharing arrangement that comes from your own company with you as the only employee of that company.

You can put in $55,000 per company that you run. So you can do this for multiple companies. The way it's structured in simplest terms is you can put in $18,000 of money per year in addition to 20% of your net income up to $55,000 total. As well if you are above 55 years old you can add an additional $5k a year.

Another huge thing for Solo 401ks is that you can take loans against the amount. This you can do before you are 55 and can take out the money legally.

To get help setting this up, visit http://www.irafinancialgroup.com/.

I'd also recommend E*TRADE for simple Solo and Roth 401k's—you can also borrow against it for free. It takes a minute to set up, but it's worth it.

Core documents

Work your core.

When my father passed, he owned a house in San Jose. He didn't create a real will in his lifetime but just had an executor of the will. His estate was held up in probate court as a result and it was four years before my brother and I could get the house.

If you don't want your estate going to shit or being held up in probate court for years, it's best to set up your core documents today.

The three core documents are as follows:

- **Last Will:** Explains how your real estate and property should be distributed when you die. It identifies your grantor, who will be the person in charge of the estate. (Note: You'll need a witness to notarize this. Consider taking a friend out to lunch or for a beer to make it painless.)
- **Advanced directive:** Identifies how you want your end-of-life medical care to be.
- **Power of Attorney:** Names the person who can act on your behalf in all manners when you cannot make them for yourself.

You can get these documents online at https://eforms.com/wills/, which also provides help filling them out. RocketLawyer.com also provides a cheap, step-by-step guide to creating editable versions of these.

Your to-do list: Step 4

Protect your money, you worked hard for it!

- ☐ Get umbrella insurance for a higher protection ceiling. I use RLI, and have used Travelers Insurance in the past.
- ☐ Take advantage of free healthcare if you can. Go to https://www.healthcare.gov/
- ☐ Self-insure your car to save money if you don't drive often. Call or go to your county judge and ask the price.

Next, think long term and make better use of your 401k/IRA's:

- ☐ Utilize a backdoor Roth IRA to bypass income limitations. Follow these steps.
- ☐ Set up a Solo 401k or checkwriting IRA as a better, more versatile option. E*TRADE works, or visit http://www.irafinancialgroup.com/ for help.

Finally, you never know what can happen. Make sure your affairs are in order:

- ☐ Set up your core documents at RocketLawyer or https://eforms.com/wills/.

Knock off all these and sleep a little better at night.

Step 5

Smart Business Practices

"There's a big difference between income focused and asset focused."

You're reading this, so you most likely have a business or two that has made you some money. But you know what's better than being rich? More rich.

The difference is all about getting on that compounding income curve by focusing on assets and playing the tax game.

Where to put company finances
The bank, obviously.

If you are smart and are already getting a great return on your company money, skip this part.

This may be a dumb one, but for the past four years I've kept $1 million in company cash in a Chase checking account. But I don't want to jeopardize the money and risk it by putting it in the market or locking it up long-term with CD rates in case we need it.

Only recently did my dumb ass realize I can move it to a money market, where the rates are now around around 2% and the risk is minimized.

That $1 million will now generate $20,000 extra dollars a year without me doing anything else. There are other ways you can make this money work for you, but I don't want to have worry about that money. So a money market account is the place for my company finances.

Reinvesting in your business;
Play the long game.

My friend John runs three multi-million dollar companies. I contacted him for this book and asked how I can reduce my tax exposure. He said just spend all the money investing in your business. The government is going to tax you around 37%, so you get a 37% discount on whatever you can spend in your company to have even bigger future.

The obvious inclination is to pocket your earnings and live rich. But let's run through two scenarios:

C-corp or LLC business makes $1 million this year in profit. Is it better to:

A. Pay out the million dollars to yourself?
B. Spend the million dollars in the business?

I'm keeping it very vague for a reason.

Have an answer yet?

Okay, let's play both scenarios out so you can see for yourself.

If you went with option A, then your million dollars if you live in California instantly becomes $500,000 after taxes.

With option B, assuming you already take a salary to live a good life, you pay $0 extra dollars and get to use the entire $1 million ideally to make your business worth more in all future years. **Now you are living a good life on the compound curve.** Let that money reinvest and keep compounding for you to keep growing it, and also pay $0 in taxes.

Some ways you can reinvest the money back into your business:

1. **Advertising:** Facebook, Google, sponsorships, or even prepaying for future advertising.
2. **Acquiring other companies:** We'll discuss this more in detail, but look at any competitors or failed companies you can acquire.
3. **Hiring:** Hire even more people. Pay for a recruiter. Invest in recruiting software.
4. **New software:** Buy more software to help you scale better for the future.
5. **New equipment:** Software, company cars, office gear, travel bags. Get creative.

Your main chick and your side chick working together

Take 20% off the top

With 2017's tax changes, the government added QBI: Qualified Business Income. Since taxes for C-corporations were lowered, the government didn't want everyone changing their businesses over to that structure. QBI makes it so you can get 20% off money that comes through an LLC or S-Corp.

Here's a real example from a friend of mine.

He has a corporation and a side hustle that he spends a good amount of time on. He had the corporation sponsor his side hustle. It was a transaction that was likely going to happen anyway as they are two separate business activities.

The corporation gets a business expense.

Say my friend receives $100,000 in revenue. Because of QBI, he now only pays taxes on 80% of it. So he saves 37% (tax rate) on $20k = $7,400 just by paying it through his corporation instead of a salary.

There is a caveat: You can't do QBI if you are a services-based business (lawyers, doctors, accountants) and there are restrictions if you are doing it in real estate.

R & D tax credit

America loves innovation.

A few months ago, some friends casually mentioned that they took a tax credit for their software developers in the United States. I help run Sumo.com and AppSumo.com which create a ton of software, but I'd never heard of this deduction. After doing a bit of research, I was shocked to realize this is legit. You can expense the salaries of your software developers and, in addition, the government gives you a tax credit for the work the developers do. We did it at Sumo Group, Inc. and got back $500,000 in credits.

That's right, half a million. The US government wants to encourage innovation in America, so they give a sweet federal credit for a wide range of "research and development" activities, including software development.

That means if you have a developer that makes $100,000, you can write that amount off as an expense to your company. Then you can claim an additional tax credit based, in part, on those same salaries, which will reduce your taxes even more.

At Sumo Group, we used BKD.com to perform the audit and verify the work is innovation. They provide you a report of what's actually R&D you can take credit on.

Some friend's companies just run the numbers themselves, but for $40,000 for the firm to do it and $15,000 for my accounting firm to redo our taxes (see **Get a Second Opinion on your taxes**), I felt more comfortable given we were getting $500,000 back.

This is what it looked like on paper:

Year	Credit		Carryforward		Actual (Utilizations)			Refunds	
	Federal	State	Federal	State	Federal	R&D	TX Alloc	Federal	TX
2014		[redacted]	-		[redacted]	[redacted]	[redacted]		
2015	[redacted]	[redacted]	-	[redacted]	[redacted]	[redacted]		[redacted]	[redacted]
2016	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]		[redacted]	[redacted]
2017		[redacted]	-	[redacted]	[redacted]	[redacted]	[redacted]	-	
2018	-	-	[redacted]	[redacted]	-	-	-		-
	[redacted]	[redacted]			[redacted]	[redacted]	[redacted]	515,125	

You can claim the R&D credit even if your company isn't doing anything innovative. For example, if you hire a developer to build an in-house platform rather than using something on the market, you can claim the R&D credit. So if the costs are equal, it's often more tax-efficient to do things in-house.

What you need to do:

1. You don’t have to, but we used a firm called BKD.com to come and do an analysis of our software development. There are other firms that do the same.
2. They provide you a report of what’s actually R&D that you can take credit on.
3. You can amend up to four years of tax returns and future tax returns with this credit.
4. Voilà—money saved.

How to have your passive business offset your active one

Assets compound income.

The IRS makes a distinction between active vs passive income. “Active” income is income you earn through actually running your business and spending material time on an income stream.

Passive income is income derived from non-active sources of business: real estate investments, stock investments, basically anything you didn’t actively devote a lot of time to.

Now here’s the kicker: losses from a passive business can never offset income from an active business. If your main business makes $100k, yet you lose $50k in a passive real estate investment...sorry, you’re out of luck.

As you can see, if you have a business that is producing losses, you generally don’t want it to be passive. Luckily, the tax law gives you some flexibility; there are seven tests that determine whether you “materially participate” in a business—making it an active, rather than passive business—and all you have to do is pass any one of the seven. The seven criteria for counting something as active income:

1. Spending more than 500 hours on it.
2. Your participation was the only substantial participation—meaning for all intents and purposes, only you did it.
3. Involvement for more than 100 hours if you worked the most on it.
4. It’s a “significant participation activity”: A business in which the taxpayer participates, without qualifying for any of the other six tests, for more than 100 hours.
5. Participation during any five of the previous ten tax years.
6. It’s a “personal service activity” for any three previous tax years. That means you aren’t a material producer, so professions like health, law, engineering, architecture, accounting, actuarial science, performing arts, or consulting.
7. Spent more than 100 hours on a regular, continuous, and substantial basis.

Let's look at an example. If I had $100k in income from my main (active) business and a $25k loss in a new start-up business I formed, that loss would normally not be able to offset the $100k of earnings.

However, if I had tracked the time I'd spent over the previous year working on my startup business and that time averaged more than 10 hours per week over the past year—or if I was the only one that worked in the business, or I could satisfy any of the other seven tests—my involvement in the business would count as "material participation" and shift that business from passive to active. That means I could use the $25,000 loss to offset my $100,000 business gain. #Winning

If you want to try to qualify for material participation, it's important to track time spent (I use a simple spreadsheet) on the project in question: how much time you spent, the dates you worked, and what you worked on. That way, if the IRS ever decides to challenge your material participation, you're on strong legal footing to defend your use of the deduction.

Things get a little trickier when you're dealing with rental real estate. That's because rental activities are generally always considered passive, no matter how hard you may work on them. There are two exceptions, however:

1. If your adjusted gross income for a year is less than $100,000, you can deduct up to $25,000 in losses from a rental activity as long as you "actively participate," a standard that requires a much lower level of involvement than the material participation we discussed above. Once income creeps above $100,000, however, you start to lose that loss/deduction by $1 for every $2 income exceeds $100,000. As a result, once your adjusted gross income hits $150,000 for a year, no loss is allowed.
2. Ever wonder how some real estate moguls pay almost nothing in taxes? Here's how: even profitable rentals usually generate a tax loss, owing mostly to interest expense and depreciation deductions. But as I just said, those losses don't do most of us any good because rental losses are always passive, so you can't use them to offset other sources of income. Unless, that is, you're a "real estate professional." In that case, as long as you materially participate in your rental activities under one of the seven tests described above, you can deduct your rental losses in full against any other source of income, active or passive. To be a real estate professional, you must satisfy two tests: first, you've got to spend more than half your time during the year on your real estate activities; and second, those hours spent on real estate activities must exceed 750 (this prevents a retiree who manages one rental but only spends 500 hours during the year doing it from getting the tax break). So if you find yourself getting more and more involved with your rental businesses, you may want to cut some hours in your non-rental work and ramp up the rental hours so as to qualify as a real estate professional, opening up a world of tax shelters that most taxpayers can only dream of.

Reducing your tax burden by creating a management company (or loan out corporation)

Contract yourself out

A fellow rich person, call him John (name changed for privacy), runs a company. He's set himself up as a contractor to his own company. I asked him why he does that, and his major reasons were fourfold:

1. You can create a Solo 401k, which I've described earlier.
2. You save a bit on payroll taxes by setting up the management company as an S corporation and taking a reasonable salary.
3. You get liability protection on any assets within that new LLC.
4. Your company gets to save some money on payroll taxes.

There is some nuance here. If you work for a company and try to create an LLC to reduce your taxes you'll get caught. You have to have other clients, otherwise it'll be obvious to the government. The idea is you manage or work on multiple clients so you are a contractor to these specific companies.

To do this right, create a company and then have your customers pay to that company, or have your main company hire your firm. If you are the owner of the business and only have one client, then it's not worth doing this. The only way this works—legally—is if you run multiple companies and have them each pay out to the management company. That should be fine.

Another thing is to consider your company structure. If you are a C-Corp, it's best to run an analysis on company structure for whether it's better to pay yourself as dividends vs as a salary.

Let's look at both options. Assume my salary is $250,000:

Salary * ordinary income tax (37%) = $92,500 in taxes

$100k salary + $150k in dividends = $37k in taxes + $35.7k in taxes = $72,500 in taxes, yay.

The downside is that your company now pays the 21% rate on that $150,000 in dividends for a combined $31,000, so it's not a huge difference which one you do. Either way, it's good practice to run the numbers on it.

Be your own landlord

Work from home, Pt 1.

If you have the capital, consider buying your own building and renting it to yourself. I first came across this when Mark Pincus did this with Zynga. There's a famous quote that the dentist didn't get rich from the practice, got rich owning the building the practice was in.

When you rent to yourself, you can:

- Not worry about market changes or rates since you dictate the rental rate.
- Can have the company pay and expense insurance, property taxes, all expenses, HOAs.
- Take depreciation on the building to reduce your revenue.
- Make a profit.

If you can't afford the full building, I would consider finding a few other people who run companies to join together to own the building. That will also reduce your risk if your company decreases in size.

You might also consider an alternative: If you use a home office and have an S-Corp (or an LLC taxed as an S-Corp), you can have your company cut you an annual check for reimbursement for use of your office.

14 days of tax free property

Work from home, Pt 2.

I have one of my active companies rent my primary residence for up to 14 days tax free during the year. That's about $14,000 ($1,000 a day) the business could expense and I was able to receive tax free. About $5,180 in free money for doing nothing extra.

In fact, you can rent your residence to anyone during the year, and as long as your total rental days are less than 14, you don't have to report any of the income (and of course, you don't get to claim any expenses, either). The rumor is that this law came to be years ago because rich homeowners in Augusta, Georgia wanted to be able to cash in by renting their homes during The Masters golf tournament, but didn't want to pay taxes on the income since they only rented the house for that one week each year. Congress relented, and now, we all get up to two weeks of tax-free rental income!

The best part is that you don't even need to file it on your taxes as long as the stay is 14 days or less. What the government is looking at is that it's comparable to renting in a hotel and that it's not more than 14 days. So if you try to claim $2,500 a day and 30 days the government will get you. If the property is a rental already or on AirBnB it does not qualify.

I took $1,000 a day, which is what a nice hotel would cost, and 14 days for $14,000 total. You must have an agreement on file in case you get audited.

Go to richpeoplebook.com and you can give your email address for a template to use.

Your to-do list: Step 5

There are a ton of accessible strategies to employ and tax breaks to take advantage of to get more from your business.

The first are about where to put your money:

- ☐ Put your company cash into a money market to get better returns. I use Chase Bank, but your bank should have a money market option.
- ☐ Put income back into your business by buying assets. Compound your earnings and reduce your taxable income

Then level up by learning about gaming the business tax system:

- ☐ Utilize QBI to reduce taxable income. More details on qualification here.
- ☐ Move R&D in-house and claim the tax credit. I use BKD.com to help.
- ☐ Qualify for material participation to have your passive income offset active income.Read what I have here and then go to https://www.investopedia.com/terms/m/material-participation -test.asp for a review.
- ☐ Create a management company for your business

After that, relocate your business to save:

- ☐ Become your business's landlord
- ☐ Rent property to your business, using the template at richpeoplebook.com.

Complete all these tasks and you'll be saving a massive amount of money when the government comes calling.

Step 6

Selling and Acquiring Businesses and Assets

"Shaq is rich, the person who owns the team is wealthy!"

- Chris Rock -

When you make big boy money, you're going to make big boy moves. And then your Uncle Sam is going to want his share. And it's a big share. But if you play your cards right, it doesn't have to be.

A better way to acquire a business's assets

Pity pay, big deductions.

A friend bought a company for $150,000. Instead of just paying $150,000 in cash on purchase, he paid $75,000 for the assets and then paid $75,000 to the owner to stay on as a consultant. Why? Great question.

Normally you can take the $150,000 purchase price and deduct $10,000 a year for 15 years as standard business amortization. But since he hired the person on as a consultant, said friend can take that $75,000 deduction all in Year One. Booyah.

Now you may be thinking this is worse for the consultant because he pays different taxes based on income vs the sale of assets. In this case, the seller was in a foreign country so it didn't matter as much. So structuring your deal is almost as important as closing the deal.

Qualified Small Business Stock (QSBS)

Sell stock, escape tax.

Steve sold his company and the first $10 million dollars from the sale were tax free. Yes, you heard me right. He saved a shit ton of money because of something called qualified small business stock, or QSBS.

When you sell a company (must be a C-Corp), if the stock is QSBS and you've held that stock for over five years, the first $10 million dollars of gain are tax free. Holy shit. Sign me up. The tax savings comes when you sell the stock of a qualified small business venture, subject to various limits (see below).

Bonus: You can issue the shares to family members in a trust so you can save $10 mil and they can save $10 mil.

To be QSBS, the stock must meet the following tests:

- The stock must be in a domestic C corporation (not an S corporation or LLC, etc.), and it must be a C corporation on the date you received the stock and for substantially all of the time you hold the stock.
- The corporation may not have more than $50 million in assets from the date of formation and through the moment immediately after you received the stock.
- Your stock must be acquired at its original issue, meaning you must get the stock directly from the corporation in exchange for cash, services, or property (not from a secondary market).
- During most or all of the time you hold the stock, at least 80% of the value of the corporation's assets must be used in the active conduct of one or more qualified businesses.
- Certain business—accountants, lawyers, doctors, restaurants, and a handful more, are prohibited from qualifying.

To get the maximum benefit from QSBS stock, you must sell the stock after holding it for at least five years; selling assets of the corporation won't be nearly as beneficial. But if you should find a buyer for the stock, the payoff is huge.

Another neat feature of QSBS is the rollover. If you've held QSBS but only for six months and if you have a transaction event, then you can roll those gains over into a new QSBS and defer paying any tax on the initial gain.That's huge for angel investors if you think about it.

For matters like these and others, I use Carta.com for managing our company stock. It's a great resource that I'd recommend.

Donor advised funds

Philanthropy pays.

Joe invested $50,000 into a company that went on to have an acquisition. The stock became worth $500,000 after the exit. Yay, Joe is semi-rich. The problem is that he now has to pay 17% capital gain on the increase in that stock. Unhappy Joe. So he is moving that $500,000 into a donor advised fund. He has no tax on any gains and any future gains, and you can take full deduction for the donation. Joe, at anytime he wants, can then distribute the money to nonprofits of his choice.

The lesson here: If you have any gains on illiquid assets (stock and real-estate) and plan on donating in the future, it's financially beneficial to move those assets to a DAF.

Let's say you bought Tesla stock and it went up a lot. Instead of selling and donating to charity, move that money into a DAF. You can donate that money tax free and you can also leave the stock to grow tax free in that account. You can choose to donate that money to whichever charity you want, whenever you want. It's a low cost to set up and yearly costs are minimal to do here: https://www.schwabcharitable.org/public/charitable/home.

Your to-do list: Step 6

If you're selling or buying a business, do these things to make yourself liable to less:

☐ Keep the owner on as a consultant.

☐ Take advantage of the QSBS tax break, and use Carta.com to manage your stock.

☐ Set up a donor advised fund after big windfalls if you plan on charity. Schwab has a good service for this.

Step 7

Buy Some Cool Shit and Get Paid For It

"You know what the rich are that poor people aren't? They are well advised."

You're rich. Start spending like it!

Everyone knows that you aren't rich until you buy a yacht. But here is the difference: the poor think yachts are lavish purchases for people with "fuck you" money; the rich see them as a tool. The rich are just better informed.

So get out there and spend some cash—just do it where there are income and tax advantages for you. Like these.

Private real estate deals

You gotta know a guy.

Ever wonder who owns the apartment buildings in your town? A lot of times it is an REIT, a public company, or private owners who do a syndication. For example, I rent a parking spot in my building and asked the guy who owns it what he does for a living. He said real estate—he's a professional purchaser of real estate. He doesn't have billions and he can't always get the bank to give him the money. So he'll syndicate the deal to friends, acquaintances, and others to invest.

So I've invested in three of his properties and am getting around a 10% yearly in cash return, meaning I put in $100,000 and get $10,000 in cash a year.

Another measurement for investments is your IRR (internal rate of return). This makes it so you can compare the rate of return over time in different investment opportunities. That 10% in cash is solid IRR.

How do you find someone like my parking spot landlord?

1. Hit up local apartment complexes. Talk to the manager or ask who owns them.
2. Look around town for whose real estate signs you see. Connect with them; they'll either have investment opportunities or who someone who will.
3. Go to buildings you really like and ask who owns them. Most larger building owners are professional.

Investing in Private Real Estate Marketplaces

Better than keeping tangible assets under your mattress.

PeerStreet is a great way to invest in real estate as a non-professional. I like this because it's collateralized. It could become your best friend.

I personally have invested $100,000 in PeerStreet.com. It's a great way to diversify your real estate holdings, get involved in more deals than you could possibly on your own, and produce a relatively safe 8% return.

The reasons I use them are because the loans are vetted through the company, all loans are first position liens (meaning if the person ever forecloses you get paid first), and you get direct ownership of loans—so if PeerStreet.com goes away, you own the loan directly.

PeerStreet also handles all foreclosure proceedings if anything happens. This is happening more recently as a few of my loans have foreclosed on. This is because when people buy the properties they have to put equity into the places.

The places are usually a good deal. Even if the property forecloses, you have around 10-30% of price reduction where you'll still get all your money back and likely a profit.

Peerstreet's downside is that it issues loans as debt, meaning they won't qualify for long-term capital gains rates if you can hold the investment long enough. Instead, you get a 1099-c for your income, which is taxed at standard rates. But the gains—and the safety of tangible assets—make this worth it for me.

I've preferred this over LendingClub, where there's no collateral and significant amount of defaults on their platform.

Getting PAID for having a yacht or private jet

No, you don't want a friend with a boat. You want a boat.

A friend of mine has a $3 million dollar private yacht. I was blown away when I found out he had it. Then he started breaking it down—how he set it up to be a business and the tax advantages he was surprisingly able to take. Suddenly it made sense.

To buy a yacht smart, you want to create an LLC dedicated to renting out your yacht. You buy a yacht necessary to then rent out in your new business. You have to be an active investor (and can't just invest in someone else's boat), otherwise it's a passive business. The boat becomes a tool used to generate income for your business.

Next, you can take a huge depreciation against the value of the boat—which possibly may show a loss that you can take against your net income as well. Under the 100% bonus depreciation rules of the new tax law, you can write off 100% of the boat in the first year and carry the losses forward.

Here's where it gets crazy:

1. You can finance a $500,000 boat at 4% interest, ultimately paying with expenses around $4,000 a month, or $48,000 a year, to have a boat.
2. You can deduct the $500,000 cost of your boat in your first year.
3. So if your salary is $200,000 ,you can write off $200,000 in losses and ultimately pay $0 in taxes for 2.5 years. At a 37% tax bracket, you are saving around $74k * 2 years + $37,000= $185,000 in cash savings from having the boat.
4. But it gets better. Realize that you barely put down any money to own the boat and are paying $48k a year to have a $500,000 boat. If you put the boat in a charter so it gets rented out, then you can even make a profit on the boat to cover your yearly loan and maintenance costs.

Get real estate for free and bonus tax write-offs

The Jared Kushner strategy (Minus Russia)

This is something I'm actively doing on new real estate property deal, so I can vouch for it.

The reason this works now is because the new depreciation rules are so friendly. If done right, you can take an immediate deduction for everything but the "structural components" of the building; i.e., walls, elevators, etc. The rest of the costs can be expensed in full immediately, even though the reality is that buildings don't really depreciate as fast as we are writing them off. But this is the law for now, so let's take advantage of it.

Here's a model I created to help understand what's going on: RichPeopleBook.com

Kushner Real Estate Investment Strategy

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	A	B	C	D
1				
2				
3	Cost of Building	$1,500,000		
4	Finish out	$1,000,000		
5	Total Building Cost			
6				
7	Land Value	$500,000		
8				
9	Building Cost Basis	$2,000,000		
10				
11	Bonus depreciation (section 179)	$1,000,000	(year 1)	
12	Building Depreciation	$25,641	(over 39 years)	
13				
14	Year 1 depreciation write-off	$1,025,641		
15				
16	Building Financing			
17				
18	Down Payment	$500,000		
19	Principal Payments	$35,297		
20	Interest Payments	$108,156	business deduction	
21	Total Mortgage Payments	$143,453	$11,954	a month
22				
23	Property Taxes	$50,000		
24				
25	Total Year 1 write-offs	$1,133,797		
26				
27	Year 1 Personal Income	$500,000		

Sheet1

When you purchase real estate, you "depreciate" the value of the building and contents based on standardized tables (called MACRS / Modified Accelerated Cost Recovery System). These tables are fixed, and they class assets based on their so-called "useful life"—a period of years. It's a huge departure from reality. You may purchase a computer that's good for ten years, but under MACRS you will depreciate it over a useful life of five years. This is even more exaggerated when you factor in Section 179 and Bonus Depreciation, which lets you write off 100% of the cost of an asset in the year you place it in service for your business.

So, say you buy an office building for $1.5 million. You gut it and refinish it, but leave all walls intact. You spend another $1 million on the finish out. You take out a mortgage to pay for the building. The land value is $500k, so you have a $2 million “cost basis” in the building. You pay a firm like BKD to do a Cost Segregation Study, which breaks the building up into asset classes to fit into the MACRS useful life categories. They say that of the $1 million in finish out you spent, $500K is for qualified improvements, which have a depreciable life of 15 years. $150K is for the security, IT, telephone, and computer systems, which have a useful life of five years. The remaining $350K is spent on fixtures, with a seven year useful life.

You can already see how this is a huge departure from the reality. You’re not going to update that building’s fixtures in seven years. While you may repair computer/IT systems, they’re likely going to last more than five years. And your finish out is guaranteed to last more than 15 years before it needs a facelift. But the entire million dollars of finish out is now eligible for 100% expensing under either Section 179 or the bonus depreciation rules. The remaining $1 million cost of the building is depreciated over 39 years because it’s commercial real estate. So, you just got a write off of $1,025,641 in year one.

But remember that you financed the building. You have great credit and got a killer interest rate, so your mortgage payments were $143,453 last year. Of that, $108,156 was interest, which is another business deduction. You only paid $35,297 towards your principal, but your total write offs are $1,133,797. Your total out of pocket cash was only $143K. This is called debt leveraging.

To take it further, say this year you only have $500K of personal income. But you have over a million dollars in write offs. Unless you’re a real estate professional as previously discussed, the excess passive loss carries forward to next year. You have a passive loss carryforward of $633,797.

In year two, you’ve already written off the bulk of your building purchase, so your depreciation deduction is only $25,641. Your interest expense is $116,203, and you paid property taxes of $75,000. In total, you have write offs of $216,844. Say you brought in rental income of $700,000, so your net profit for the year is $483,156. Your mortgage payments were $143,453 again. Your net cash for the year was rent income – mortgage payments – property taxes = $481,547. You have a loss carryforward from last year that completely offsets your income. You pay no tax in year two, but you have cash of almost $500K.

If you keep doing this year after year, and you factor in Section 1031 exchanges for like-kind property (which let you defer gains as long as you roll the money into a new similar property), you can see how it’s a legal way to scheme the system.

If you stop, then it catches up with you. When you sell a property and do not do a 1031 exchange, you have to “recapture” the depreciation you’ve taken on that particular property and recognize the gain. So if you had written off $1,159,438 in depreciation, you would have a capital gain of $4 million - $2.5 million (purchase price) + $1,159,438 = $2,659,438.

Collateralized loans

Use assets to get more assets.

If you're making big purchases, you may need to take out a loan. Recently, I wanted to remodel a house I'm building. Yay, adding my man cave! So I went to the bank like a regular shmo and got a loan that had $23,000 in setup costs and a 3.75% interest rate for a five year loan. That's not bad.

But I went to my main bank, Chase, and asked about collateralized loans. If you have assets in an investment account, most of your banks will give you a 1% interest rate and LIBOR on the amount of the loan. LIBOR is the interest rate that banks tend to lend each other at.

You don't need to sell any assets and take capital gains or ordinary income for things you want to spend money on like real estate purchases, business investments, or buying some stock.

Currently I can get the loan against my assets within two weeks (unlike traditional loans, which can take literally six months to get) at 3.3% monthly interest rate for up to 80% of the assets I have in my investment account. The downside is that the rate does change monthly based on LIBOR, so if it goes crazy upwards you are liable.

Another great thing about the collateralized loan is that you can draw on it at any time. Say you get approved for $400,000 loan. You're not ever required to use it, so let's say you just take out $50,000 for an investment. You only pay interest on that. Nothing else.

Your to-do list: Step 7

This is the fun part. If you are looking for purchases, consider the following options that can end up paying for themselves, and then some:

- ☐ Use Peerstreet or talk to professionals to get into the private real estate marketplace
- ☐ Buy a yacht or jet and set up an LLC to rent it out to qualify as a commercial vehicle
- ☐ Buy real estate and use depreciation and write-offs to get it for next to nothing. I created a model for you at RichPeopleBook.com
- ☐ Use collateralized loans for better rates when buying all the above and more. Just ask your bank.

The poor look at these as frivolous; the rich look at them as tools. We're just better informed. Take these steps and make it happen.

Step 8

Game the Tax System

"The whole system is fucked but it's what we are given, so might as well make use of it."

- Rich Friend -

Who would you say your boss is? I mean at work, so your husband or wife is not the answer. Is it your direct report? Maybe the company owner?

All those would be wrong. Your boss is the government.

Each year, Uncle Sam takes about half of your earnings. For all intents and purposes, you're reporting to whomever we elect president for the first two weeks of every month you work.

Most people accept this until they start making some serious money and realize they are working too hard for Uncle Sam.

And if you've bought this book, it's because you've started making some serious money. So it's time to start working smarter, not harder, for Uncle Sam. The only question is how.

It's a question that the old money and super rich have answered—after all, we all know Warren Buffet pays next to nothing in taxes. But if you have some money and some financial understanding—and if you bought this book, you either do or didn't read the description—then paying less in taxes doesn't have to be all that complicated. As we discussed before, some of it is as simple as where you live:

Salary	Taxes	Amount After	Difference
$100,000 in SF	50% (37% fed and 13% state)	$50,000	
$100,000 in Texas	37% fed tax (no state)	$63,000	$13,000
$500,000 in SF		$250,000	
$500,000 in Texas		$315,000	$65,000
$1,000,000 in SF		$500,000	
$1,000,000 in Texas		$630,000	$130,000

Okay, so if it's that simple, why doesn't everyone do it? Most people think (like I did) that if I take these tax advantages:

a. The IRS will find out
b. I'll get audited, which will be a huge pain in my ass, not to mention a legal risk

The reality is that 10% of people who make over $1,000,000 get audited. If you make $200,000, your chances are safer at 1 in 80. All totaled, individuals have less than 1 in 160 chance of being audited. The IRS is looking for the big money and people doing big tax shadiness. So your chances are way lower than you imagine. Check the facts.

Adjusted Gross Income	2017 Audit Rate
0	2.55%
$1- $25,000	0.71%
$25,000-$50,000	0.49%
$50,000-$75,000	0.48%
$75,000-$100,000	0.45%
$100,000-$200,000	0.47%
$200,000-$500,000	0.70%
$500,000-$1,000,000	1.56%
1,000,000-$5,000,000	3.52%
$5,000,000-$10,000,000	7.95%
over $10,000,000	14.52%

From Nolo.com.

Pay taxes with your credit card (and get points)

Uncle Sam buys your plane ticket.

My friend's company pays more than $100,000 a year in corporate taxes. Most companies, including my own, pay with a straight wire transfer. No harm, no foul. But my friend was able to pay his taxes with his credit card and arbitrage the difference.

There's a crappy looking site that's legit called Pay1040.com where you can do it. Most credit card companies can offer you rewards that amount to 3% reward on your spending; i.e. you get 3% back in rewards you can use against all purchases. So for your business and personal you can use Pay1040, which only costs 1.87% to pay your taxes online with your credit card. Plus the expense is a business write-off! Arbitrage away. This also should work for your personal taxes.

Section 199

“Cold as the Rockies.” Or, uh, “Made in America.” Yeah, that one.

The government gives significant subsidies for manufacturing in America. They want American-made products, so they give significant tax breaks to encourage that behavior and you can get 9% deduction against your income.

Be warned, however, that this provision expired at the end of 2017. But that doesn’t mean that you can’t go back and amend your 2015 and 2016 tax returns if it turns out you were eligible for the deduction but never claimed it.

My Tesla story, Section 179 and bonus depreciation

If you haven’t noticed yet: TURN INCOME INTO ASSETS.

This is where if you buy assets how and when you can deduct it.

Recently the government had a $7,500 tax credit for electric vehicles that expired Dec 31, 2018. To take advantage of this I did a few things I think you can use for your benefit.

1. Found Tesla base model that cost $55,000.
2. Financed the Tesla with $10,000 and a loan of $45,000. This comes to $700 a month in payments.
3. Expensed the car to my company, it is now the SumoCar.
4. I got the Model 3 and because it’s a company car I can amortize it (meaning deduct the value of it), starting with $18,000 in 2018.
5. Remember the tax credit I was able to receive. Since I could expense with pre-tax money that’s $7,500 / 21% = $35,714 I got for the company.

= For $10,000, I was able to expense $35,714 + $18,000 = $53,714 against our income this year.

This gets even better -- if your vehicle is over 6,000 lbs. They qualify as commercial vehicles and get the 100% deduction, in their FIRST year. This was originally called the "Hummer tax loophole."

Thankfully, the heavy battery in a Tesla X puts it just over the limit. A mutual friend buy bought one and now pays about $1300/month in payments (of course, with interest that can be written off). He got a $100,000 tax deduction in year one…

Here’s the more legal jargon and nitty gritty of this tax advantage:

For assets purchased after September 27, 2017 and through the end of 2022, you can claim 100% bonus depreciation, meaning you expense the full cost of the asset in the first year. In general, you can claim 100% bonus depreciation on all assets with a life of less than 20 years, plus computer software. Even better, for the first time ever, bonus depreciation is available against the purchase of used assets.

Section 179 serves as a nice back-up plan for when 100% bonus depreciation starts to phase out after 2022. Under these rules, you can deduct up to $1,000,000 in the first year when you purchase qualifying assets. You start to lose the deduction, however, when the total assets purchased during the year exceed $2,500,000. In addition, the deduction is limited to your taxable income during the year.

Like 100% bonus depreciation, you can generally only take the deduction on assets with a life of less than 20 years. Under the new law, however, you can now claim Section 179—but not 100% bonus depreciation—on things like roofs, security systems, and fire alarm systems.

The beauty and thing that blows me away about this deal is that you can depreciate the entire amount even if you finance it. Meaning you are only paying small amounts each month but can depreciate the full price that you are paying for right away.

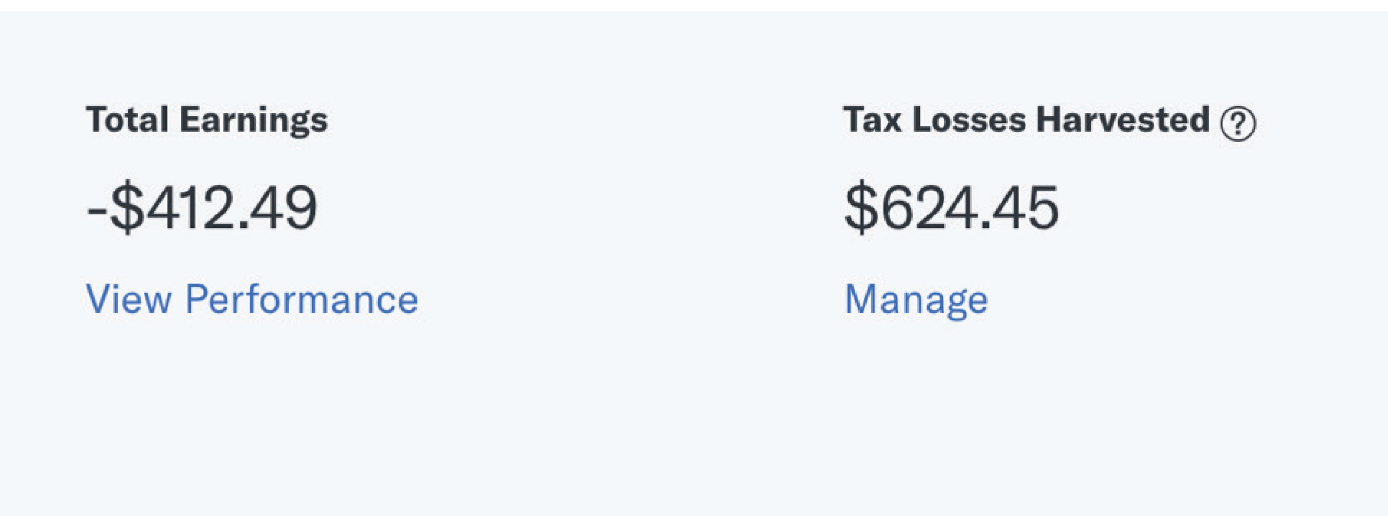
Tax-loss harvesting

When playing the market...

Tax-loss harvesting is the practice of selling stock where you've taken a loss to offset capital gains; it allows you to save about 1% or so a year without any additional work. I've been investing in Betterment with Tax-Loss Harvesting enabled. I've put $10,000 into tax loss harvesting funds, which follow the same rules but also capture the tax-loss on any declines in stocks.

This involves buying and selling index funds or stocks and getting a tax break for the losses. This is a way that, when your stocks have a loss, you can actually capture that downside of the loss and then the upside of the "stocks" going back up in the future. It helps you reduce your tax burden on any stock gains.

Personally I didn't do this for 2 years because it seemed insignificant but so far this year I've received $500 harvested with only $30k invested into the Betterment Portfolio.



Let's say you buy $1,000 into a index fund that does tax loss harvesting. Say they own Coca-Cola and the stock goes down 10%. They sell it, so you have 10% loss of your stock. Then they purchase Pepsi, which did not take the hit and is an equivalent stock that should trend with Coca-Cola. Now you've captured the 10% loss against your stocks and the growth should be equivalent so you'll get the upside if the soda market rises.

A word of warning: You can't sell a loss stock and then buy the exact same stock right away, because the IRS has rules about "wash sales," which basically prevent you from using a tax loss if you purchase the same stock within 30 days before or after the sale of the loss stock.

If you have not sold any of your stock, then you can do what I did, which is a reverse tax-loss harvesting. You sell stocks that have capital gain and buy the same stock at the same time. This is totally legal (and is not a wash sale).

Schwab Intelligent Portfolios and Betterment.com both offer this service.

Opportunity fund

Gentrification is your friend.

This one is brand new; I'm putting $60,000 into it to see how it all works out.

As part of the new tax law, Congress is providing a ton of tax breaks to anyone who invests in a "qualified opportunity zone"; generally, a low-income area—although in reality many of these areas are anything but—that has been designated as an opportunity zone by each state.

My original plan was to buy a condo in Vegas in an opportunity zone, but I ended up backing out because I did not want to spend the time dealing with the investment. So I looked around for a fund that's available to manage my investment. I found it with

https://fundrise.com/offerings/opportunity-fund/view. They find the properties and then handle all the management.

To take advantage of these breaks, take a capital gain you make from selling a stock or investment property and put that gain in an opportunity zone fund. That fund goes and invests in a business in one of the opportunity zones approved by the government.

You can create your own fund pretty easily by registering an LLC with Awesome Wyoming LLC and filing form 8996. This is how I am funding the investment. You don't have to create your own fund to invest, but I did it to isolate and reduce liability on the purchase.

Here's where it gets interesting.

If you leave your capital gain in the fund for five years, then your capital gain gets reduced by 10%. If you leave it in another two years beyond that, then it goes down by 5% more.

Now eventually, that deferred gain comes home to roost; you'll have to recognize it at the earlier of:

1. The date you sell the investment in the opportunity fund, or
2. December 31, 2026.
3. But let's say the original gain you deferred was $1 million, and you do it during 2019. After seven years, $150,000 of that gain is gone forever. At the latest, by the end of 2026 you'll have to recognize the remaining amount, but that's only $850,000.That means instead of a 20% tax on $1 million on your gains—which would lead to $200,000 in taxes—you are now recognizing only $850,000 of that gain and thus paying a tax of only $170,000 and saving $30,000 just by transitioning your money into a opportunity fund.

Furthermore, if you leave your money in the fund for ten years, then any appreciation on that investment is tax free, as long as you sell by the end of 2047. That's the real carrot here.

As you can see, there are several characteristics of the opportunity zone incentive that make it more attractive than a Section 1031 "like-kind exchange":

1. In a like-kind exchange, you can't take any cash off the table or else you'll have to pay some tax. With an opportunity zone, however, if you sell property for $2 million and recognize $1 million of gain, to defer that gain you only need to invest $1 million in a zone, not the full $2 million. So you can take $1 million and stick it in your pocket.
2. After 2017, a like-kind exchange only works with real property. You can invest any capital gain into an opportunity zone, however, so gain from the sale of rental property or from the sale of stock are both fair game.
3. With opportunity zones, there is no "like kind" requirement. So you can sell Amazon shares, reinvest that gain in a low-income housing complex in an opportunity zone, and still reap all of the tax benefits.

In certain areas like Los Angeles and parts of Vegas, many professional developers are buying up huge areas and revitalizing them to take advantage of this opportunity. There are many unanswered questions by these funds, but it's very promising.

Conservation easement

For posterity and the environment. Kinda.

This one is risky and I've researched it a lot.

I am putting $100,000 into a conservation easement and should be able to write off around $400,000 against my ordinary income. There are two types of easements: one is for buildings and the other is for land.

Originally I found a land deal through a referral, but backed out because it seemed weird. Trust your intuition in these cases. Basically, it was buying some swamp land and converting it into an easement (not developing it). Luckily, I got a referral into a fund that buys legitimate historical buildings, retrofits them, rents them out, and/or sells them. This made sense to me.

The general idea is that some farmer has a piece of land or there's some historic building. The government wants to encourage the person not to develop on his land, so they give him a conservation easement if he qualifies.

What that means is he can deduct 100% of his income yearly against the value of the land if it would have been developed.

It works this way:

Farmer makes $50,000 a year.
Current land is worth $1,000,000.
If the land was developed it would be worth $10,000,000.
The government gives the easement to the farmer.

Now, for the next 180 years, he can deduct the $50,000 against his income (100%).

What farmers are doing now is opening a trust for others to buy into the land and access to the easement. It's legit, and anyone who's not the farmer can deduct up to 50% of their income.

Let's say I buy into the above scenario for $100,000. I get 10% of the $10,000,000 value, which is $1,000,000 in deductions.

My salary is $1,000,000, so I can take a maximum $500,000 a year in deductions. I can now take $500,000 a year in deductions over the next two years.

So if my salary is $1,000,000, I can write off $500,000 and now only pay taxes on $500,000.

At the 37% tax rate, that is $185,000. Plus I had to "spend" the $50,000 into the easement early. So my total cost is $235,000.

If I were to just pay my taxes straight up, it would be 37% of a million = $370,000.

Final tally: I get $370k-235k = $135,000 back extra every year. So, in doing the easement, I effectively save $270,000 over two years. Not too shabby.

A bit confusing but very promising. Here's what's unnerving about it.

1. When you buy into the land, you give up all your rights. The people who facilitate the easement can choose to actually develop the land if they so choose.
2. The people running the easement can take management fees on your investment. And if the easement gets developed you may not actually even get any money.
3. The government definitely allows easements, but they are becoming more scrutinized.

It makes sense and a lot of rich people like Donald Trump are doing it. Is it worth the risk? Not to me right now, but it might be to you.

An added benefit of this strategy is that there's potential your historical building could be profitable over time and you could get money back on your investment.

Warning: Be aware of a land conservation easement vs a historic preservation on a building which seems to get less scrutiny.

Establish a NING trust

Stick and move.

If you like living in a high-tax state (NY, CA, etc.), consider setting up a NING (Nevada Incomplete Gift Non-Grantor) trust.

With a NING trust, you can set up a trust that will take gains (or shares) in your company and hold them. Then, when you move to a no (or low) tax state, you can liquidate the trust and receive the holdings from the trust tax-free.

To do this, you have to give shares over to this trust and find administrators (often friends or family members) who are willing to act as trustees of the money in the trust. This means that they get complete legal oversight as to how the money is spent, invested, or disbursed.

This is just one of the disadvantages of a NING—if you set up your parents or a friend as trust owners, they are well within their legal rights to pay themselves the entire amount of the trust and never give you a penny.

There are also other disadvantages: it can be expensive to set up (the guy I use charges $15,000 to get one going), it requires you to have trust administrators who don't live in the same state as you, it means that you don't have immediate access to trust funds, and it requires that you entrust your funds to other administrators in the trust.

However, given all these disadvantages, there can be some incredible savings for those who use NINGs. I know one friend who just sold his company for $100 million. Of his approximately $70 million gain, he put $60 million into a NING, and is thus saving $7.8 million from California tax. Not bad.

Often founders utilizing NINGs will keep $10 million worth of their shares for themselves and put the rest in a NING. This way they get to take advantage of QSBS (but pay state income tax) and shield the rest of their gains from state income tax via the use of a NING.

You're about to have a windfall and want to reduce your family generation tax exposure

Choose wisely.

My friend, if you are receiving a windfall of greater $10 million dollars, then create a trust.

When you die the, government imposes an estate of tax of 40% for everything over $11 million dollars. They don't want the rich having all the money. But we are smarter than that. :)

So create a trust, because all that money is exempt from the estate tax. Yay.

The idea for a trust is that it's a tax-efficient vehicle to avoid estate tax and provide money to your family and future generations.

Here's why people have trusts. Let's say you run a startup and you put $10 million worth of your company shares into the trust while you are alive. Then you die 40 years later. :(

That stock could have appreciated to $100 million buckaroos over your lifetime...Yay. And your inheritors get all that money without the 40% tax.

Warning: You only get the exemption one time, so if you put in stock or real estate and it goes down to $0. You used up that exemption. Be careful.

If your net worth will never surpass $10 million or so don't worry about a trust.

There are two other advanced things I won't cover.

1. You can "stuff" your trust with more money over time. Look up GRATS
2. There are ways to use the money from your trust while you are alive.

Kids: Great tax deductions!

A good friend of mine runs a profitable online content business and ecommerce store. He has hired his two kids to help sort inventory, model for the site, and do other menial tasks that he pays them for. You can only do this if you are their parents and own the company. This gives him a legit business expense, but more importantly he's setup a retirement account he can now fund for both "employees."

In 2018, for example, you could pay your kid $12,000 and he or she won't pay any tax because that amount is the same as their standard deduction. Even better, you can increase it by another $5,500 and have the kid contribute the amount to a deductible IRA. So your business gets a $17,500 deduction, and your kid gets 1) no tax bill, and 2) a jump start on retirement.

Of course, the kids must actually do something to earn the wages; you can't just pay them for for being cute.

It is gray area, but on audit it only comes down to if they were actually working and if you paid a reasonable amount. This is why you use modeling and document the work. You can also have them do counting, research, and other tasks. You get the expense and it's all tax free to the kid. Make sure to document them doing the work.

The tax law has changed; give your business structure another look

Late in 2017, Congress enacted the biggest overhaul of the tax law since 1986. There are a lot of meaningful changes in here, and as a result, everyone should take a second look at how they are conducting their business. Here's what I mean:

For the past 31 years, most businesses didn't want to operate as a C corporation, because these businesses are subject to double taxation: income is taxed once when earned at the corporate level, and then a second time when that corporate income is distributed to the owners.That stings, particularly when the corporate rate was as high as 35%. Back then, doing business as a C corporation meant it was going to cost you about 50% in federal taxes by the time you got your hands on the cash as the business owner.

As a result, most businesses were set up as a sole proprietorship, partnership, or S corporation, because owners of these businesses only pay tax once, at at the owner level. And in 2017, the top individual rate was 39.6%, meaning doing business as a sole proprietorship, S corporation, or partnership saved you about 10% in federal taxes.

As part of the new law, however, the corporate rate was reduced to 21%. This brings the combined corporate tax down to about 40%. But the top rate on individual income—and thus on the owners of a sole proprietorship, S corporation, and partnership—was only reduced from 39.6% to 37%. As a result, in 2018, unless Congress did something else, the advantage of doing business as a sole proprietorship, S corporation, or partnership would have been reduced from about 10% when compared to a C corporation to less than 3%.

To try to help owners of a sole proprietorships, S corporation, and partnership retain their tax advantage, however, Congress passed a new provision that, in simple terms, allows owners of these business types to deduct 20% of the income earned by the business. The point is, this makes the top rate on income not 37%, but 29.6% (37% * (1-20%)), meaning owners of a sole proprietorship, S corporation, or partnership will still save about 10% in federal tax compared to owners of a C corporation.

But here's the catch: a lot of business owners will not be getting the 20% deduction. For example, if you're taxable income is above $315,000 (if married, $157,500 if not), you can't take the deduction if you're a doctor, lawyer, accountant, consultant, athlete, actor, or a handful of other personal service-type businesses. This means that if you're in this type of business, you will be paying a top rate of 37% on your income from the business. As a result, you might want to take a hard look at switching to a C corporation, because in that case, you will pay a new, low 21% corporate tax rate, and if you don't need to withdraw all of the cash out of the business, you'll save big over a sole proprietorship, S corporation, or partnership.

And there are other reasons to consider a C corporation if you're not going to get that new 20% deduction. C corporations can provide tax-free fringe benefits to shareholders; partnerships, for example, cannot. Plus, under the new law, entertainment expenses are no longer deductible, and meal expenses are only 50% deductible. So think about it—if you're in a business where you entertain clients a lot, if you do business as a partnership or S corporation, all of the entertainment and meals you don't get to deduct are effectively being taxed at 37%. But if you switch over to a C corporation, those same denied expense are now taxed at only 21%.

Of course, before you run off to switch to a C corporation, remember that Congress is wildly unpredictable, and as a result, that 21% corporate rate might not be 21% for long, particularly if Democrats win back the Senate and the Presidency in 2020.

Now, let's say you've been doing business as a sole proprietorship, S corporation, or partnership and you are going to get the 20% deduction. In that case, you probably don't want to jump ship and become a C corporation. But you do want to think about whether you're using the right choice of those three types of businesses, and here's why: If you make a lot of money (more than $315,000 if married, $157,500 if not), the 20% deduction is limited to 50% of the wages paid by the business.

To illustrate what I mean, think about a real estate broker who makes $600,000 a year selling luxury homes. Usually, brokers operate as a sole proprietorship, meaning the income is reported directly on their individual return, and the business is not treated as a separate taxpayer from the owner. If the broker doesn't have any employees, he or she is screwed, because with no wages being paid by the business, they can't take a deduction. So what can they do?

Become an S corporation. As an S corporation, the business is treated as separate from the owner, and under the tax law, the owner is required to pay themselves wages. So let's say our broker takes a $170,000 salary. This reduces the income of the business to $430,000. But it also gives the business a wage expense that the owner can use to take the deduction. Now the owner can take a deduction equal to 20% of the net income of the business, or $86,000 (20% * $430,000), limited to 50% of the wages paid by the business, or $85,000 (50% * $170,000). So the final deduction is $85,000, or $85,000 more than what the same person got when they operated as a sole proprietorship. That's a huge savings for what amounts to a simple switch to an S corporation.

Your to-do list: Step 8

We've talked about reducing taxable income and some basic tax strategies, but now that you've completed all the steps above and you're a pro at being rich, it's time for advanced action to take on personal taxes to keep much more money in your pocket.

The first step is subtle:

- ☐ When it's time to physically pay taxes, get points by putting them on your credit card using Pay 1040

You should also be aware of some key breaks:

- ☐ Use tax sections 179 and 199, or make sure your accountant does. Declare any manufacturing your business does in America, and make sure you're using the depreciated value of your assets.
- ☐ Use Schwab Intelligent Portfolios or Betterment.com to set up tax-loss harvesting for any money you lose in the market in a given year.

Consider the following mechanisms for avoiding taxes on large amounts:

- ☐ Set up an opportunity fund. Use Fundrise to set it up, or your accountant or wealth manager should be able to put you on the right track, or.
- ☐ Buy into a conservation easement: Try to get a referral to http://gbxgroup.com first or ask your network.
- ☐ Get some help from your CPA setting up an NING trust and/or a generation-skipping trust if you have a big windfall coming in.
- ☐ Employ and set up IRAs for your kids. Your financial services provider (and probably whomever does your personal IRA) can do this easily.

Finally, be aware. Because of the recent tax overhaul:

- ☐ Ask your CPA about tax code changes. Congress is still refining the new tax code, so keep an eye out for more changes and act accordingly. If you're a masochist, you can look through the full code through the government site: http://uscode.house.gov/browse/prelim@title 26&edition=prelim. But it's your accountant's job to keep up with this; watch the news and then consult his expertise when something changes.

These tax strategies take some financial literacy to employ, but the payoffs are huge. Take as many steps here as you feel comfortable doing; the more you can do, the more you can pocket.

Advanced, complicated things I don't understand and am not including in this book:

I mentioned in the introduction that I'm not a CPA. While I've spent countless hours interviewing tax pros, wealth managers, and other high earners, there are still some strategies that are over my head. I haven't used them, so I can't vouch for them personally and haven't included them in this book.

NQDCP

Non-Qualified Deferred Compensation is, in basic terms, money earned but not realized yet. It's a strategy to get around contribution caps to retirement plans.

Foreign Earned Income Exclusion

If you live outside of the USA for at least 330 days you can exclude paying any tax on your income up to ~$100,000. Only problem is you have to live outside of the USA. If you are doing it anyways or close to it then this makes sense for you.

Related: You can also write off $30,000+ against your gross income for your foreign housing exclusion.

Carried Interest (Creating your own hedge fund)

As owner or partner of a hedge fund, you're entitled to a performance fee. This is taxed at a lower rate of about 24%. Yes, those guys you read about in the paper making billions doing god knows what in a hedge fund and also pay less tax than you. There are significant costs ($50,000) to create a hedge fund, but you can get a great tax rate!

GRAT

Grantor retained annuity trusts are trusts that allow you to give funds to family members as gifts with no tax. This is a vehicle a lot of people are able to stuff their regular trusts with amounts above the normal exemption.

Companies and resources i use

Teegardin CPA - the local CPA firm I use in Texas.

AdvicePeriod.com - for high net worth money management.

RLI for Umbrella Insurance

https://www.risk-strategies.com/ for liability insurance.

Google search for conservation easement - I use http://gbxgroup.com (They likely won't take you without a referral.)

Carta.com for stock management

kitces.com - for tons of great financial advice (quite cynical and great)

Ckrlaw.com - This is the firm I used to double check my taxes

Online resources

- FinancialSamurai.com
- https://www.reddit.com/r/fatFIRE/
- https://www.irs.gov/newsroom/dirty-dozen
- http://www.modernluxury.com/san-francisco/story/the-best-investment-advice-youll-never-get
- https://img1.wsimg.com/blobby/go/d592b2bc-ff7e-413f-930d-e686c77a7783/downloads/1cmggqjef_867126.pdf
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- http://www.amazon.com/Random-Walk-Down-Wall-Street-ebook/dp/B00QH9NTSI/
- http://www.nytimes.com/2015/03/15/your-money/how-many-mutual-funds-routinely-rout-the-market-zero.html
- https://www.kitces.com/blog/how-has-the-4-rule-held-up-since-the-tech-bubble-and-the-2008-financial-crisis/
- http://www.efficientfrontier.com/ef/997/dca.htm
- https://www.49dollarmontanaregisteredagent.com/montana-registration

Acknowledgments

Michael Campbell for being an amazing editor and taking my jigsaw of words and making a masterpiece.

Tony Nitti for being a great writer, totally available, and one of the best tax people I've met.

David Hauser for being rich and sharing a lot of what he's doing with us.

Seth Rogen for showing me pictures of his children and knowing random facts about life-insurance and IRAs.

Sam Parr of The Hustle for taking a risk and buying the first copy of this book.

Ramit Sethi for taking the time to talk about what he does with his finances.

Paula Pant for looking over this document and having the most soothing voice ever.

FinancialSamurai.com for having some of my favorite content online.

The Fin WhatsApp group for sharing more than they should.

Chad Rubin from Skubana for his input

Everyone at SumoGroupInc.com. Love everyone of you.

Sebastian Marshall for living overseas and showing how to not be "American"

About the Author

Noah Kagan was born middle class and still acts middle class. He loves the finer things an UberX can deliver him!

Okay, real talk.

I help run Sumo Group Inc. We help dope small businesses grow. Check out our products:

- Sumo.com - #1 most affordable email marketing tool for small business owners
- AppSumo.com - #1 site online for software deals

I love technology and was an early employee at both Facebook and Mint.com. I've loved money ever since my dad was running his own copier business (remember those) and my mom let me work from a very early age.

For fun I have a podcast, Noah Kagan Presents, where I share stories of people that inspire me: http://okdork.com/podcast

Reactions
From Early Readers

"Loved it dude. Some really good nuggets that even my accountant wasn't aware of. Will be putting into use."

- Kevin Tang -

"Read the whole thing front to finish. Great info and definitely some actionable content!"

- Adam Ketchum -