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INTERVIEW SERIES

The Power of Asset Protection

Why You Must Protect Your Self First

*Michael Senoff Interviews
Asset Protection Expert Gary C.*

Dear Student,

I'm Michael Senoff, founder and CEO of HardToFindSeminars.com.

For the last five years, I've interviewed the world's best business and marketing minds.

And along the way, I've created a successful home-based publishing business all from my two-car garage.

When my first child was born, he was very sick, and it was then that I knew I had to have a business that I could operate from home.

Now, my challenge is to build the world's largest free resource for online, downloadable audio business interviews.

I knew that I needed a site that contained strategies, solutions, and inside information to help you operate more efficiently

I've learned a lot in the last five years, and today I'm going to show you the skills that you need to survive.

It is my mission, to assist those that are very busy with their careers

And to really make my site different from every other audio content site on the web, I have decided to give you access to this information in a downloadable format.

Now, let's get going.

Michael Senoff

Michael Senoff

Founder & CEO: www.hardtofindseminars.com

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Any perceived slights of specific people or organizations is unintentional.

What Will You Do When Your Personal Assets Are Seized To Satisfy A Judgment Against Your Corporation?

Gary C, CEP®, MCEP, EPS, CSA®, RFC, CCA™, CEA™, CEA® is one of the most knowledgeable people I have ever met when it comes to the subject of asset protection. This interview is based on Gary's decades of personal and professional experience. Gary was a business owner first before he became an asset protectionist. He's learned how to protect his assets through real world experience, not just theory.

In this seminar, special emphasis is placed on the mechanics of the various entities including much needed information on business structures like 1) Sole Proprietorships; 2) Partnerships; 3) Corporations; 4) Limited Partnerships; 5) Limited Liability Companies; 6) Trusts; 7) Retirement Plans and more; 8 Foreign Corporations as Entities; and more.

You'll hear how to survive lawsuits, frustrate creditors, and discourage predatory litigation. You'll discover how you can go bankrupt but still legally prosper and get on with your life. Gary also discusses how being on disability or being on Social Security doesn't mean that you can't earn more money.

You'll also learn some strategies to protect your assets if you are a rental property owner or if you are in the process of developing raw land. It all has to do with creating multiple, separate Limited Liability Companies.

Listen carefully as Gary gives a detailed explanation of how you can buy a home at a 70% discount both ethically and legally.

There are too many jewels in this interview on Asset Protection to list here so I strongly advise that you listen more than once. After your mind stops reeling with possibilities, I have no doubt that you will be investigating some of Gary's strategies in more detail. For more information on reclaiming your credit and setting up a Nevada corporation call my associate Debbie Kusiak on her personal cell at 360-502-2202. Tell Debbie you heard a recording on asset protection at hardtofindseminars.com and you'll be treated like the king or queen that you are. Enjoy!

Michael: Setting up these entities is kind of like offense and defense in a football game.

Gary: Absolutely. It goes back to my favorite motto – control everything, enjoy everything, but own nothing.

Music

Hi, this is Michael Senoff with [HardToFindSeminars.com](http://www.hardtfindseminars.com). Get ready, because in the next 90 minutes, you're going to hear one of the most detailed explanations of asset protection that I've ever heard. I had the privilege of meeting a gentleman named Gary Seed. Gary is an expert in asset protection. He will show you how to legally safeguard your wealth, property, from lawsuits, creditors, bankruptcy, probate and other financial disasters that can unexpectedly wipe you out. So, get ready, take lots of notes, and this is the kind of interview you're going to want to hear more than once. Check the transcripts and let's get going. Enjoy!

Michael: It's your expertise in financial planning and business structure, I want to pick your brain on because after talking to you earlier, you sound like an absolute genius. I want to ask you a lot about this stuff. So, hopefully, in the next couple of hours, I can pick your brain and learn as much as I can.

I think everyone knows how important this is, but it's almost like when you're selling a preventative, people don't want to really think about the terrible things that can happen, but certainly they do. The proper planning ahead of time is so important.

What would you tell someone that doesn't want to face the reality of how important this is? If you were to try and convince someone how important this is to properly plan this stuff, and how you could solve this problem for them for doing all the hard work, is it going to be a pain in the butt for someone getting this set up? Or, is that what a professional financial planner, like with all your designations, does? Do you make it an easy process?

Gary: It is not necessarily an easy process to get it done. It just takes money and some time, and the proper structures, and the proper documents. But, the biggest problem I have with people is to get them to stop and think. I don't try to teach people a lesson or scare them. I just try to rattle the bird cage a little bit so they'll change their paradigm. Just remember that my motto is, "Enjoy everything, own nothing."

Let's imagine that we're looking at a castle in the middle of a moat and it has two draw bridges. One is an entrance side, and one is the exit. And, for some

reason, someone puts all of their wealth inside of this castle, but they forget and leave the draw bridges down. So, now anyone can come in – the IRS, plaintiffs, lawsuit, divorce – and steal all that cash and run out the other door.

Michael: Right, we've got a draw bridge on each side of the castle.

Gary: Right. So, what we need to do is pull up the draw bridges where anyone who's trying to attack or obtain our wealth can only sit on the bank of the moat and fish, and hope that they catch something.

Michael: It's a great analogy.

Gary: That is the best fortress that you can ever have, and the way you create a financial fortress, Michael, is you separate your liabilities from your wealth. There is no law that says that you have to be totally liable for everything you own.

For example, I like to set up a domestic trust that holds all my wealth, my brokerage accounts, my investments – things of that nature – in one entity, and then my automobiles are held in another entity. The reason for that is if I go out and own everything and I have a car wreck, do you think that a hundred thousand dollars is going to satisfy that plaintiff if I happen to kill the driver of the other car?

Michael: No.

Gary: No, the interest is not going to cover it. What are they going to do? They're going to come after everything that I own. However, if an entity owns that car – well, let me put it this way. You walk into an attorney's office and you tell him a sad story, and it may be a true story, and you say, "This guy hurt me and I want you to sue." I don't have the money to pay you, but I need you to take it on a contingency because this guy owns a business, and I know he's got money. So, the lawyer thinks, "Wow, we've got a good target here."

So, what's the first thing an attorney does? He says, "Well, let me investigate this for you a few days, and I'll call you back." So, what he does is he gets his investigator to go out and about 72 hours, he'll know everything that you own or have a connection to.

Now, finally the investigator comes back and says, "Man, this guy, he owns four or five companies. He's got this. He's got that. We have a good prospect for a lawsuit here." Then the attorney's going to probably take the case.

But, on the other hand, if this investigator comes back and says, "You know that guy that hit the other guy in the car accident, he doesn't own anything. He

doesn't own a car. He doesn't own a house. He has no assets." Then, the attorney has two choices. The first choice is probably what's going to happen. He's going to drop the case against you right then and there because it's just not worth his time.

Or, the other thing is, he's going to get some money upfront or ask for a larger contingency, and that generally will stop the lawsuit there in it's track. So, it's an asset protection move.

Michael: In our courts today, civil lawsuits are about one thing – money.

Gary: That's all they're about.

Michael: If there's no money, there's usually no civil lawsuit.

Gary: If you can get two million dollars for being stupid and spilling a cup of coffee on your lap, come on. There's about a million attorneys in the United States now, and another 800,000 are going to graduate in the next three years. What are all these people going to do for a living? They're going to have to sue somebody to earn some fees.

The predatory litigation is sadly the *motis operandi*. So, we have to protect ourselves against it, and people that don't think they can have a lawsuit or they think that no one will sue them, are sadly mistaken.

Michael: Do you know some stats on that off the top of your head?

Gary: There's over 600,000 law suits filed each year basically for monetary and mental damage.

Michael: 600,000.

Gary: 600,000 – the average doctor in a career of ten years is sued three times. So, those are statistics.

Michael: Do you know some stories where they lose it all?

Gary: Yes, I do know stories where they lose it all, but most of my professional clients have never lost a dime. They had to pay through their malpractice insurance, but they haven't lost any personal wealth because they really don't own any.

Let me ask you a question. Is what you see really what you see? Is it real or is it an illusion? Is there a different way to think about this? Is it possible, just barely possible that you could ever be sued?

If you understand that what you see, is not necessarily true or real, that it's an illusion because of the type of education, we're all told to go work, go get a college education, work real hard and get a job, and we'll be successful. It takes an unusual person with an unusual attitude to be successful in the world today. It doesn't come free. You have to work for it. And, if you're going to spend your lifetime over the next few years amassing money, doesn't make sense to insure your success.

Now, you can go out and buy traditional insurance and do some of the traditional type planning, or you can learn to play chess by your rules. I would rather play in my front yard with my ball, and if you don't like my rules, then I'm going to take my ball in the house, and you can go on your own. And, that's the nice thing about properly structuring your business is that you write the rules, and you can protect your lifetime's work by taking a little time now to set up your business properly and to listen to coaching and some guidance and establish the thing the way it should be the first time.

For some reason in life, there's always time to do things right the second time around, but it is much more proven, efficient and effective to do it right the first time out.

So, let me ask you a question. If you're going to put all this effort into establishing a business, and that business becomes successful, are you willing to lose a lifetime's worth of work because you're too lazy to do the work on the front end? I know that's hard talk, but you need to hear this.

So, my question is if you're serious about protecting your future, then I am serious about helping, but if you're not concerned about it, and you're going to be like most people and turn over your stock portfolio to a broker to operate on in automatic pilot without any input or guidance from you because you want to go party instead of taking a couple hours a week and managing your money, then you deserve what you get.

But, if you want to have a successful investment experience, then you need to take control of your life and not farm it out.

So, yes I'm going to ask you to do some hard work, but the other side of it is it's for your benefit. Anything worth having is worth working for. Life is like a garden, it's only successful if you work at it, and knowledge is not power. Knowledge applied with guidance is power.

So, my question, are you serious about starting the right way? Or do we go our separate ways?

Let me tell you exactly how I got into this, Michael. My best buddy asked me if I would come in and go to work with him in the insurance business, and I said, “No thank you. I don’t want to be the cancer to society.” But, he said, “But, you don’t understand. I do advanced type planning.”

So, he and I got together and formed a company, and it grew very quickly. In a few months we were recruiting agents and it ended up being a brokerage firm that had over 500 contracted agents.

Three years from that, I gave him the opportunity to buy me out, which he graciously agreed to do. So, then I had to go out and find something else to do.

In the meantime, I had outgrown him basically in knowledge, and decided to go to a class for certified estate planners, and I went there and they exposed me to a few things, and then the connections that I had in that organization exposed me to doing planning a couple weeks a month to the Bahamas with foreign jurisdictions and learn how to actually do offshore planning.

Then, I came home along with my knowledge to that because of an illness I had to return home permanently, and I decided I would take that and apply it to the domestic front because many people are very afraid and unsure off the offshore jurisdictions, and deservedly so.

So, I decided to take that and apply it to the domestic arena, and that is basically how I got to where I am today.

Michael: What are the designations? What do all these acronyms stand for?

Gary: I’m a member of the National Institute of Certified Estate Planners. That’s about a year course. It can be done in five months, but I did take their master’s course which took about a year to complete. Then, I became a Certified Senior Advisor which is a basically a designation that is introduced by the Society of Certified Senior Advisors which targets people in healthcare and the financial planning services industries to educate them on the needs of planning for seniors.

Then, I became a Certified Charity Advisor where I work with charities individually showing them how to set up a charitable giving department without administrative costs and without responsibility of making monthly payments to people who purchase a charitable gift annuity from them, and I basically farm that out to other entities and have them reinsure it.

I also became a Registered Financial Consultant which is synonymous to a Certified Financial Planner, and basically they require you to have training

6

and designations before they accept – the CEPs and CSA and CCAs qualify for that. They want you to have a broad range of planning, and then during that time, I became involved with Medicaid planning teaching clients how to preserve their assets if they did not have long-term care insurance and were unfortunately faced with going into a long-term care situation.

As a result of that, I began to educate myself. I was taught by one fellow who really did spend a lot of time with me. So, I researched the law and got into a contact network with several law attorneys, and build a successful practice that I have now with a friend of mine who also does what I do, and he covers the bases for me when I'm sick or unable to be there. So, I have a joint venture with him.

Then, I became Certified Entrepreneur Advisor, and as a Certified Entrepreneur Advisor, I learned how to help entrepreneurs raise capital for their new ventures or a new venture within their current company without giving up any equity or ownership in their business while at the same time being able to guarantee that the investor will receive an amount equal to his original investment in the company whether the business succeeds or fails. That is a very unique niche, and it's something that's very needy because most entrepreneurs are only taught how to go out and beg for money from angel investors or venture capitalists, and there are other ways to do it.

Michael: Enjoy everything, but own nothing. Control is better than ownership, and it goes against all of our training. Can you tell me what does this mean to you?

Gary: Well, one of the biggest changes in my life was when I found out that I could control things without owning them. For example, if I wanted to purchase a home and the buyer had a situation where he didn't have a lot of interest in that piece of property and he really wanted to get something done with it, I might offer him an option to purchase the house for a few thousand down and maybe make payments for him to give me an option of a year.

Then, I go out and try to find a perspective buyer or someone who buys home and fixes them up because I don't like doing manual labor myself, and I may print that note, that option to purchase to that fixer upper and let him make the remainder of the profit.

My idea is to get in and out as quick as I can without having to own.

Michael: Okay, but for the public out there, people who operate businesses – dentists, doctors, lawyers – is it a strategy that you would recommend to control everything and own nothing?

Gary: Yes it would be. What I believe is that you don't have to own something to control it or enjoy it. For example, if I had an Olympic swimming pool, and I said, "Michael, I'm going to let you use this pool free of charge. I'm going to keep the pH up on it. I'm going to keep the fence up to keep the children out. I'm going to keep it clean. So, the pool man's going to come and do everything for it. You and your family can come and use this pool anytime you wish at absolutely no charge." Isn't that better than the responsibility of ownership?

Michael: Oh, absolutely.

Gary: If I had a brand new Jaguar, and I said, 'Michael, you can come get this car. Here's the keys. Drive it anytime you want to. I'm going to pay the insurance. Keep it clean, have it waxed and detailed once a month, and you just use it as your own.' Is that not better than owing it?

Michael: Yeah.

Gary: Okay, that's basically what you can do with your businesses and with your financial life is you can have companies that take good care of you while you own that company.

Michael: Well, let's get into that. Let's talk about some business structures. Why is the structure of the business that I have important?

Gary: Well, there's actually three or four main reasons why the structure is very important. First of all, the type of structure that you have actually determines the amount of profit that you're going to have.

So, if you have a structure that is more advantageous to you in the profit arena, of course, that's something you should consider over one that has detriments in that arena.

It also determines the type of liabilities that you could suffer. If you have the wrong business entity, you could end up losing everything that you've amassed in twenty years of hard work because of one innocent mistake or a tragic accident.

It also determines the type of tax treatment that you're going to have, and of course, tax is important in businesses because tax, every dollar saved equals a dollar of profit. So, if you're being overtaxed or double taxed because of your tax structure, you may want to consider another structure.

And, also when it comes to employee benefits, under the new laws that came into place about fifteen years ago, you can not discriminate against

employees. So, therefore, you have to make a contribution employee's retirement program, but there are ways to separate programs out that benefit mainly you if you have the proper type of business structure to do that.

Michael: Okay, what business structures are available?

Gary: Well, there are many, but let's start off with the sole proprietor. It's probably the most easy one to start up. Basically, all it takes is a business license and a shingle, and an idea and a little bit of operating capital. The problem with the sole proprietorship is there are many sole proprietorships that have operated for many years without any type of liability or litigation, but if there's ever a problem in that business, the owner is totally responsible and may end up with a judgment that he has to satisfy because he is a sole proprietor of that business.

Michael: Before we get into all of this. All the structures are important. If I've got a business and I'm making a ton of money and there is an accident in my business or someone tries to sue me or there's some kind of liability, all that income that I've earned from my business is what I want to protect. I want to protect what I make, and the whole reason having the proper business structure is to protect all that hard work I've put into the business and my personal assets. Is that correct?

Gary: Absolutely, I'm an asset protection proponent.

Michael: This is really the whole idea of what you're going to teach me today.

Gary: That's right.

Michael: So, sole proprietor, easiest thing to do. Say I'm going to start a business recycling aluminum cans. I'll I've got to do is go down to the county courthouse. If I want checks written out to me in my business name, I get a fictitious business name statement. I buy a license for probably under a hundred bucks and I am in business.

Gary: Right, and if you're going to resell wholesale products, it will involve-

Michael: A resale license.

Gary: A license.

Michael: Okay, so, all the checks that come to me come in my name or my fictitious business name, but that money earned is all mixed in with my home and my car and everything else.

Gary: That's correct, and that represents huge liability. The next to set up would be a partnership. You have to find someone who has an idea. You decide you want to go into partnership with him. Maybe he's got the expertise and the sales department has the expertise and administration and management, and they're really easy to set up. It just takes a partnership agreement generally established by an attorney, or you can get them off the web these days.

The problem with partnerships is that you're responsible entirely for your partner's assets. If he commits a sexual abuse against an employee or has an accident, you can find yourself suffering the consequences just as if you had done that action yourself even though you're completely innocent.

Michael: Is a partnership set up where your personal assets are in jeopardy?

Gary: Yes, a partnership is basically an organization of convenience, but the responsibility passes out to the partners individually.

Michael: That sounds like it's more risky than the sole proprietorship.

Gary: It is more risky because not only are you responsible for your own actions, but you're responsible for your partner's actions.

Michael: Do you see a lot of partnerships out there?

Gary: I do see a lot of partnerships and I generally try to suggest that each partner consider a buy/sell agreement that not only includes the death of a partner, but also the disability of a partner. Many people alone set up a buy/sell agreement in case there's a death so they don't find themselves in business with their ex-partner's wife or worse yet his new wife. That type of thing could be devastating to a business if the partner passes away. That wife comes in and wants to control the business. She may be able to, setting apart what their partner's estate plan determines.

Michael: All right. So, you're saying if, let's say, I'm hard headed and I'm not going to listen to your advice, and I want a partnership. You're going to recommend if I do maintain a partnership to have a buy/sell agreement.

Gary: Absolutely, that includes not only death but disability so the money will be there to buy out that partnership so that you'll have control of the business, and not have to be interfered with by the family members.

Michael: But, that's all it really covers in case one gets ill or there's a death.

Gary: That's true, but the other side of that is it's something that's very viable. Unfortunately, probably 90 percent of partnerships fail within the first ten years.

Michael: Why do you think that is?

Gary: I think it's because one partner ends up unknowingly or not intentionally giving the partner more work to do by not contributing as much as the other partner. Or, he may actually be contributing as much, but for some reason the other partner feels like he's not contributing as much as he is, and they feel like the money is being split equally, but the work is one sided.

Michael: Bad feelings start.

Gary: Absolutely.

Michael: Very difficult. That's like joint ventures. Partnerships, based on my experience, are very difficult. They start off great with good intentions, and there's a lot of things you need to do. You really need to communicate before you start one of exactly what each person's responsibilities are going to be and be realistic about it.

Gary: Yeah, the two women were fighting over the baby and the king said, "Well, I've got an idea. I'll just cut him in half." Sometimes, it's what you have to do. You just have to cut the business in half and go your separate ways.

The other type of business that's probably the first thing out of an attorney's mouth when you say, "I want to start a business. What form of business do I need?" He's going to say that you need a corporation.

Michael: Why is he going to say that?

Gary: Because it's most profitable to him, and he has continuing fees he can make off of the annual reviews of the corporation, doing the minutes and bylaw updates each years.

Michael: What's a corporation?

Gary: A corporation is basically an entity that's established that has Presidents and Treasurers and officers of that nature. It also issues closely held stock or common stock to raise the capital to start the corporation.

For example, if I wanted to start a corporation, and I didn't have all the money that I needed to start that corporation, I might solicit other people to contribute funds in exchange for stocks in my new business venture.

The corporations have a very unsavory situation in them that many people don't consider. When the profits come into a corporation, they are generally taxed at the corporate level, and then when they're passed out to the stockholders, the stockholders have to again pay income tax on the receipts for their share of the corporation, and it's double taxation.

So, then you get into the Catch-22 is do I retain the profits in the corporation this year to take advantage of a lower corporate tax that may be in place in that particular year or that particular administration's term of office, or do I pass it out to myself and pay a higher tax?

In years where the individual tax is lower, and the corporation tax is higher, of course, you want to pass that money out to you as an individual to pay a lower tax on that amount. So, then the IRS steps in and says, "Well, wait a minute, you're being overcompensated. So, we're going to claim this as corporate profits." And, if you retain it as corporate profits, they're going to say, "You're taking too much income. You need to pass it out to the higher income tax bracket of your stockholders."

So, it's a continuous battle and I just don't see any need for it other than the fact that corporations do offer asset protection, but the veil of the corporation asset protection has been penetrated so many times by aggressive attorneys, who know they may not be able to get to the assets of the corporation, so they just turn around and decide to go after the individual officers of that corporation. Often times, they win.

Michael: So, the ideal benefit of a corporation is to protect your personal assets, but what you're saying over the years, an aggressive attorney can eliminate that protection by going after the stock holders personally, and they've succeeded.

Gary: Absolutely.

Michael: You've seen cases of this happening over and over.

Gary: I've seen it happen over and over again.

Michael: So, this idea of a corporation really protecting your personal assets – is it a façade?

Gary: It can be a façade, but the nice thing is if the corporation is being used as a pawn in a game, and I'll get into that a little later, but basically if a corporation owns nothing but a pad of paper and a pen, they can sue it all day long. What are they going to get?

- Michael: But, can they go to the principles of the corporation, even that way?
- Gary: Yes, they can, but if the principles of the corporation own nothing, but enjoy everything, what are they going to target?
- Michael: So, your strategy is an idea back to this control everything, but own nothing, and we can do this through a system that you've got in place.
- Gary: Yes.
- Michael: All right. Let's go to S-Corporation Election, how does this differ?
- Gary: That's a good thing, Michael. That's the next thing the attorney offers to basically say, "Take your corporation and file an S-Election." And, basically what they're saying is that all of the expenditures and profits of the corporation will be passed out to basically the President's 1040, and therefore he would have a Schedule C attached and can make deductions for his business and incorporate his personal deductions at the same time.
- Michael: Okay, you've got to do that in English for me.
- Gary: It is easier to file a tax return if you take an S-Corp Election. It's just a tax election that basically says, "I'm going to be able to take the profits and the losses and the expenses of the corporation and apply them to my personal 1040."
- Michael: My personal tax return?
- Gary: That's right, and this makes it unnecessary to do two tax filings and just makes like a little easier. However, when an attorney sees that, and he is investigating the possibility of suing you, he's going to look at you as a target because he's going to say, "Ah, this is a façade. Actually, what's happening here is that you are the owner of this business. Therefore, the president is actually a target again." Get people to quit painting bulls-eyes on their chests.
- Michael: So, your S-Corporation is just as liable, even more so, the way it's set up than the corporation if someone wants to come after you.
- Gary: Right, because the president has the liabilities and the liabilities are greater than they are in a C-Corporation.
- Michael: Okay, let's go to Limited Partnership. What's this all about?
- Gary: You're pretty knowledgeable. Limited Partnerships are basically an entity that runs similar to a trust. If you imagine a box, and that box represents the

limited partnership. There's two types of partners. The first is a general partner. The general partner has total control of the limited partnership. He makes all the final decisions. He runs the business. He purchases, hires and fires, and does basically what an owner or a sole proprietor would do, but he is the general partner of the partnership.

Michael: I love examples. So, let's say you and I are starting this business selling boxes, and I'm the general partner. I'm the guy who's going to operate and run the entire business.

Gary: And, what's most people do. One person is the general partner, and then he goes out and solicits other people to join him in partnership through contributions to the partnership, and they receive in exchange for their contribution, limited partnership.

Michael: When we say "contribution" you mean money?

Gary: An investment in the company.

Michael: So, let's say you invest twenty grand in this business that sells boxes. You're the limited partner, but you don't have the control of the business?

Gary: Right. You have decide what each one of those limited memberships is worth, or what each general membership is worth. It is generally predicated upon what you invest in the business.

For example, if we decide we were going to have a hundred units and we were going to try to raise \$100,000, that each unit would be worth a thousand dollars. So, if the general partner has twenty units, then he's going to receive twenty percent of the profits that are pro rata in ratio to those units.

Michael: Can I still be a general partner and have a low amount of units? Does the units and being a general partner coincide or is it independent?

Gary: It can be independent. Unfortunately, that's attracted the attention of the IRS many times. So, it's better to just keep things on the even keel.

Michael: So, in our box company, what would you recommend me as a general partner? How many units should I have?

Gary: I think you should have twenty units? Now, the other eighty units could be divided among other investors who are limited members. So, at the end of the year after all deductions and expenses, any profits that are left out, are passed out because the limited partnership is a pass through entity meaning that all

the tax liabilities or losses pass out to the individual members according to their share of the membership.

Michael: All right, if someone has more units than me, does that through my general partnership status off?

Gary: It doesn't because they're not voting units. You own all the voting units. However, many attorneys and business structure specialists do not know this, but it's something you should consider. You may want to be a one percent member who is the only general partner, and then you also control the other nineteen percent as a limited member. So, you can be both a general partner and a limited partner at the same time thereby reducing your liability. So, most of the time, limited partners are only responsible for their portion.

Now, there's a lot of good case law behind limited partnerships. They've been tested in court. They've been challenged by the IRS and by litigants and creditors and they have held up very well.

Michael: Use my box example. I'm the general partner. We've got this company that sells boxes. I have twenty units. I've got eighty additional units. Let's say I get eighty other limited partners at a thousand bucks a unit, and that makes up my limited partnership. I'm the general and there's eighty others.

Gary: There's four other partners with twenty shares like you have.

Michael: Okay, let's say four other partners with twenty shares.

Gary: Not shares, but memberships, yes.

Michael: And, what are the pros of this box business that we have with limited partners?

Gary: Well, the pros are very good because it really reduces the possibility of getting a judgment against the partners.

Michael: Okay, so give me an example. Our box company, we send out some boxes, and they cut someone and someone wants to sue our limited partnership. How's that going to work?

Gary: I'm the type of person that likes to be equitable as well as ethical, and if it's just a cut, and we're looking at a four or five thousand dollar claim, of course the company's going to carry insurance for that, and that's going to be handled. But, what really concerns me is when we've got frivolous lawsuits in excess of a million dollars, and then what you're going to find out is that

what's going to happen is it goes to court, and the plaintiff wins the judgment. It doesn't necessarily mean-

Michael: Are they suing me the general and all the limited?

Gary: Generally, what they're doing is suing the partnership itself.

Michael: They don't list all the limited partners in there?

Gary: Most of the time, they do not. They can, but most of the time do not, but they do try to go after the general partner because he has control.

Michael: Okay, so what you're going to see in the lawsuit – the limited partnership, the name is going to be sued a whole, and sometimes the general partner.

Gary: Absolutely. Most of the time, they don't prevail because the judge basically will say, "Well, this is why a limited partnership is set up is to relieve some liability", but it has happened many times. That's I really decided to use another entity in probably ninety percent of the cases that I handle.

The other point is many times a plaintiff only ends up with a charging order where he's being treated as a limited partner, and he will receive his pro rata share of any distributions from the company. The trick is to make sure that there are no distributions, and we'll talk about that.

Michael: Okay, you've got to bring me back to my example because I can learn best from example. We've got a frivolous law suit. They're going to sue our box partnership. So, there's a lawsuit. Who is liable?

Gary: Generally, who is liable is the partnership as a whole unless they come after the general partner, too, and often they do. The general partner may be responsible for that lawsuit according to the percentage of the company that he owns, but that does not preclude the fact that an aggressive attorney may come after his personal holdings.

Michael: So, where are the pros of the limited partnership? Or what are attorneys telling people the pros of a limited partnership are?

Gary: Basically, they're advising people to go into limited partnerships because of the asset protection because it's rather new. It's only been around about fifty years, and most people are unsuccessful when they go after a limited partnership.

Michael: Why are they unsuccessful?

- Gary: Basically, because judges understand that there are many frivolous lawsuits and they rule against it.
- Michael: Because it's frivolous, or because there's some added protection in the way this limited partnership is set up?
- Gary: Both.
- Michael: So, there are some things when you're set up as a limited partnership that do protect you maybe a little bit more than a corporation or a sole proprietor.
- Gary: Right.
- Michael: What I want to know is in this limited partnership, where does the structure offer the benefits for the person who has a limited partnership?
- Gary: There's a benefit because, first of all, they don't have to front all the money, they can go looking for investor partners. Why investors would be attracted to a limited partnership is because they have limited liability, because if they're a limited member they do not suffer any of the consequences of a lawsuit.
- Michael: I see. So, the limited members are protected. The only one liable is the general partner really.
- Gary: Right. The only time I've ever seen a limited member get into trouble was when he was the one who actually caused the liability.
- Michael: So, the advantages of limited partnership has an advantage if you want to start a business and raise capital, you can do it without all the stocks and the corporation stuff.
- Gary: Absolutely.
- Michael: Easier, quicker, less expensive, right?
- Gary: Yes, and it's a lot easier to put together a deal.
- Michael: And, these have been around for about fifty years.
- Gary: Yep, they've been around a good while.
- Michael: And, they're pretty solid.
- Gary: They're pretty solid. The newest thing to be on the market is a Limited Liability Company, and basically what a Limited Liability Company is, it's a

hybrid. It's actually a combination of a corporation and a limited partnership. So, you have two types of members.

Michael: How new is this?

Gary: This has been around in our state for about fifteen years and several other states – California for example – for about 25 years. There's not as much case law on these type of entities, but they have been tested quite a bit here recently and have held up extremely well.

Michael: So, the pros of this hybrid?

Gary: The pros are it's very hard to attack your general partner. Like the limited partnership, it's almost impossible to get a judgment against a general partner because he holds that position. Although, it can be done if that general partner is the one who caused the action.

Michael: Why is it hard to attack? Because of the way it's set up?

Gary: Basically because the limited liability company says that the partners are not liable for the actions of the company.

Michael: Kind of like the corporation.

Gary: Yeah, and the cons are very few. There are many benefits to having a limited liability company. First of all, they're very easy to set up. All you have to do is file for Articles of Organization from your state. In North Carolina, the fee is \$125, and then every year, there's what's called a franchise fee, but in North Carolina, they call it an annual report. You get to fill out your annual report and pay them \$200 for the process. Other states are much cheaper on their annual renewal. So, you need to look around to see which state is beneficial to you.

However, if you have a foreign corporation – I'm not talking about offshore. A foreign limited liability company would be a limited liability company that actual domiciles in another state, but is doing business in your residence.

Michael: And, you can do that?

Gary: You can do that, but then you have to pay the additional franchise fee for that entity to operate within that particular state. I have a way around that that is very unique and may work better for some of your students.

The liabilities are basically this – if someone were to win a judgment against a limited liability company, basically all they're going to receive is a charging

order from the judge that basically says, “You are now a quasi-limited member, and you are to get your share of any distributions that come out of the limited liability company.”

Michael: So, the person suing the limited liability company, their judgment isn’t like a judgment for a million dollars. The judgment is you become one of the limited partners.

Gary: Right, a quasi-limited partner.

Michael: Why don’t they get the judgment for all the money?

Gary: Because many times the money is not there, and also they’re only going to win the judgment wherein the judge says, “You’re a limited member now, and you get to get your share of the judgment.” That’s basically the only thing they can get that they’ll be successful in is a charging order.

Michael: And, when you say charging order, we’re talking about the judgment?

Gary: Right. The judgment is the charging order that basically says you’re going to be treated as a limited member until your judgment is satisfied.

Michael: Let’s say I’m the person who sued our box company, and the box company was a limited liability company, and the judge said, “Okay, I’m going to give you a charging order for \$10,000 to cover your medical expenses and what have you.” Now, what if your limited liability company did have those assets in the business, would I get a judgment for ten grand?

Gary: They could, but if I were an astute manager of that limited liability company, what I might do is say, “Limited members and general members, we’re having a cash flow crunch this year. So, what we need to do is retain all operating capital, but because we file a 1065 and you receive K-1 distributions every year, what I need to do is send you out a tax done for money that you didn’t receive.”

So, the limited members are going to receive, let’s say in this case a done for \$10,000. So, that charging order or successful judgment holder is going to receive basically a tax bill saying that he’s earned \$10,000, and he’s going to have to pay taxes on that even though he hasn’t received any real money. How long do you think he’s going to hold on to that hot potato?

Michael: Okay, and this is the strategy that is totally legal and ethical that can be done in a limited liability company?

Gary: Absolutely. It works like a charm.

Michael: How about a limited partnership?

Gary: A limited partnership can do the same thing, but it's not as clean as it is in a limited liability company. Another thing that could happen is that the limited liability company can make huge investments in company assets, and make sure there's no profits. It also could set up a leasing company, and then turn around and lease all this equipment from the new limited liability company, and there would be no profits for many years to come.

Michael: Setting up these entities is kind of like offense and defense in a football game.

Gary: Absolutely. It goes back to my favorite motto – control everything, enjoy everything, but own nothing.

Gary: Many people establish limited partnerships basically on an operating agreement and a handshake and a little bit of money, but I found out that it is prudent and wise to always have a written agreement because no matter what you agree to, years down the road, people remember what they want to, and it's always wise and prudent to put business matters in writing signed by both parties.

Michael: And, we're talking partnerships.

Gary: We're talking any type of business. Many times when companies are set up as a limited liability company, the tax person will say to them, "You can file this as an S-Corp", and you can. You can file this as a C-Corp. If a limited liability company only has one member, it's going to be treated as a C-Corp, so it's always important to have at least two members – a general member and a limited member, but both of those can not be the same person. You actually need two individual people to hold those positions.

But, I prefer to have a 1065 tax filing. That's basically a pass through that says, "after all the deductions inside the limited liability company, you're going to receive your share representative of the memberships that you hold. You'll receive your share of the profit." And, it's much easier to control.

The other reason I like the limited liability companies, unlike a C-Corporation – a C-Corporation really shouldn't have a limited liability company to be one of it's stockholders or it's president, but a limited liability company can have a C-Corporation as it's general partner.

So, for asset protection purposes, I suggest that my clients set up a shell general partnership that owns one percent of the general partnership of the

20

limited liability company, and that corporation only owns a pad of paper and a pencil. So sue it. We don't care.

Michael: That's how I'm operating my business. If I'm the general partner, I would be the C-Corp as that general partner which is owned by the limited liability company?

Gary: No, it's the other way around. The C-Corporation would be the general partner that manages and controls the limited liability company, but it would only hold that position at maybe a one percent general partnership.

Michael: Who owns the other 99 percent of the ownership?

Gary: You could own the other 99 percent because remember that the C-Corporation has a separate federal ID number and is a separate individual. So, if it owns one percent general partnership, and controls the limited liability company, you could own the other 99 percent, and have absolutely no liability.

Michael: Okay, very interesting.

Gary: Yeah, it's an asset protection strategy that works quite well, but there has to be a viable business purpose for the C-Corporation to exist. A good example of that would be to have the general partnership be a management company that receives it's share of the profits of the limited liability company in exchange for it's management abilities. That's a viable business interest.

Michael: And, it doesn't own any assets.

Gary: And, it doesn't own any assets. So, my favorite business entity is a limited liability company because they've been proven to me to be simple enough that the average person can run them. Another advantage of a limited liability company is unlike a C-Corporation, it doesn't really have to file annual management. Many times, C-Corporations are penetrated and set aside in lawsuits because the officers have not kept up with their annual meetings, and they're not recorded. So, it makes them very vulnerable to penetration.

Where a limited liability company is not required to actually hold those meetings on an annual basis, it's wise to do it if you've got more than two members. For example, if you're a limited liability company and you're a real estate investment company and you're buying and developing properties, and you have a 160 limited members, it would be wise to have things in writing.

The next business structure that is available is a business trust. In the past few years, these have really come under attack by the IRS as being fraudulent trusts or abusive trusts. If you go on the IRS's website, you will see there's

warnings pasted there. The truth of the matter is those attacks were generated by people who set up business trusts and try to deduct dog food as security expense.

They were trying to deduct their own personal TVs and stereo equipment as audio visual equipment of the business trust. But, it's not an unknown entity.

Michael: Trusts like the Rotchilds and some of the richest people in the world have used these.

Gary: In fact, Fidelity Magellan Mutual Fund is a business trust. So, is the Stutter Capital Growth Fund. So, is Shell Oil company, Lloyd's of London, the London Stock Exchange, the Kennedys, Rockefellers, Duponts, Mellons, President Clinton and Jimmy Carter have them.

Michael: They're all trusts?

Gary: They're all business trusts. Now, do you remember when Hillary Clinton got into trouble because she had a conflict of interest when she was trying to install the national healthcare program? That conflict was brought about when someone discovered that she owned a large portion of her portfolio on Merck stock, and Merck is a big pharmaceutical company.

Well, it just so happens that she came back about four days later and they said that she no longer had a conflict of interest because she, Bill, and Chelsea had set up three blind trusts. Well, blind trust is another name for a Massachusetts business trust that is basically a business trust, and one of the largest trust company is American Timber Trust Company, and they've been around for almost 180 years, and have never been challenged because they're a business trust.

So, what I'm saying is because of the inherent nature of attitude of the IRS, this may not be the proper entity for 99.9 percent of businesses, but there are particular individuals that control a large amount of wealth that may want to consider establishing a business trust and filing a 1041 with all the deductions that you're able to take just like a corporation, and have some advantages that the average business structure doesn't have.

However, it's going to take quite an experienced attorney to do this, and someone who's not afraid to go against the grain.

Ninety-nine percent of the people don't need this type of problem, but it is a very advantageous entity if you understand it and know how to fight for what's right.

Michael: Now, how does this differ from a family trust where people are setting up family trusts to protect themselves from probate issues?

Gary: Family trusts are revocable trust and by the way, I should discuss revocable and irrevocable at a later time, but a revocable trust is basically saying, "I own this asset", and this is a quasi need, but the difference is when I pass away, all the assets in my revocable living trust, are going to pass outside of probate, and so there's not going to be a need for an eight month settlement or a twenty year settlement period.

Trusts, or irrevocable living trusts are also less likely to be contested and there are just so many benefits, and once the assets pass out, they pass out by the contract, after all a trust is a contract, and it's controlled by contract laws not statutory law.

Probate costs can end up costing the family seven to ten percent of the deceased estates as well as delay in time and a lot of aggravation, whereas most revocable living trusts are settled within ninety days to six months at one tenth the cost of probating an estate.

Michael: Okay, we can talk more about that later, but that's really a separate issue from what we're talking about.

Gary: It's basically not the same type of trust. This is a trust that actually operates as a business and has a federal ID number.

The next thing that we need to discuss briefly, and it doesn't fit a lot of people, but foreign corporations or entities are something that some people want to consider basically because they're getting a little tired of the attitude of the IRS and the limitations and the penalties of law in the United States. So, you're finding many companies that are outsourcing many of their jobs and programs and administrative costs that they used to have here in the United States to foreign jurisdictions.

Michael: And, you can legally do that. We're in a worldwide economy. You can set your business up anywhere in the world if you have the knowledge, right?

Gary: Absolutely. There are reasons to do that. For example, you may want to outsource your shipping because it's cheaper, but you also are not required in other jurisdictions to comply with ARESTA and make contributions to those retirements programs. So, there are many advantages to doing that.

Now, I think all people who work for you ought to have some type of retirement, but you're not as restricted as you are in the United States.

Michael: So, we're talking foreign corporations and entities. What are some other advantages setting up outside of the United States jurisdiction?

Gary: Well, basically, they're in a total different jurisdiction, and I try to use countries that are under common law. They actually operate their government the way we used to do back in the days of our forefathers without all the statutory law, oversight, restrictions and overseers of the government entities, which is OSHA, ARESTA, and all those types of ABC entities. When I say 'ABC Entities' I'm talking about governmental restrictive entities.

Michael: So, what are some of those common law jurisdictions?

Gary: As far as common law jurisdictions are the island of Nevis, and a little country called Dominica, which is right next door to St. Kits, the Turks and Camas Islands, the Bahamas. Those countries have basically given up the rights to the IRS and allowed the IRS to come in and look into those bank accounts and companies that used to be totally private. In fact, some of those countries used to have laws if you revealed any information about corporations, you could be hung.

Michael: So, there's people from all over the world searching for safe havens, countries with common law to set up an establish their business entities to operate in privacy?

Gary: Yeah, the IRS propaganda is they're really tax evaders and they're looking for tax havens, but in reality it's those people are looking for freedom. They're tired of government restrictions and losing their profits to a government.

Michael: There is a website put together by a bunch of accountants that lists all the SIC codes in the different industries, and I was just doing some research. I don't remember the actual URL, but you could look up an industry. So, you could look up dentists, and then it'll give you all the stats that have been gathered by the government of the entities that the dentists had set their business up in, and I remember this specifically. I think 60 percent of all the dentists in the United States were sole proprietors.

Gary: Right, and it's so much easier for them to be set up as PLLC, Professional Limited Liability Company. If you look around at many attorneys nowadays, they're operating under PLLCs, so are doctors, dentists. They have personal liability protection.

So, if we separate our wealth and our liabilities, and our home into three different entities, and we have a car accident, can they sue the company that owns our home? No, it's a separate entity. So, we'll never lose our home unless there's an accident on our home. Of course, you're going to carry a

24

million dollar umbrella policy and liability policy on that home – whatever company owns that or trust owns that home. Therefore, you can take care of anything that happens on the property, and chances are you'll never lose your home, and you can't lose your wealth because it's set up, etc.

Now, the advantages of multiple entities is asset protection and diversification. No longer do you have to hold all your assets into one bag. If you've got one hunting dog, to use a Southern analogy, and that hunting dog gets sick and dies, you're not going to be able to hunt the rest of the season, that's why you want to have four or five bird dogs.

Employer benefits – I've talked about this. We've hit upon it briefly early in our conversation, but if you have a separate company that you work for, that company can provide you many benefits, and that company profits do not have to be shared with other employees because there's possibly no other employees in that company. You can be a general member and a limited member and also an employee as long as you have another member to be involved in that limited liability company. You only have two people to worry about, and then you can use an age weighted or compensation weighted retirement program and most of the benefits will go to you.

Employee benefits of course can be separated, and one of the biggest liabilities that most companies have is human resource problems and lawsuits. So, sometimes it's wise to have one company that hires and pays your employees that contracts with the company where your major wealth is being made.

Michael: So, in my entity, I can separate my employees' benefits, my whole human resource department as a separate company that will separate where all those lawsuits come from.

Gary: Absolutely. You can have National Widget Company that actually manufactures and makes a large amount of profit, than National Widget Company of California could be the company that actually hires and employs your employees.

Michael: Kind of like how the military has everything compartmentalized.

Gary: Yes, and you can play the same games. One of the other advantages of multiple domiciles is that you can use a foreign LLC. For example, I could use a Nevada LLC. By the way, I do like Nevada, and I do like New Jersey, and Alaska's come out with a new business trust that I really like in the past five years.

But, you can use an entity in another state which is titled as foreign jurisdiction, but it's not foreign. It's just in another state. The problem with that is if I've got a business in Nevada and I want to do business in North Carolina or California, I'm going to have to pay an additional franchise fee for that company to operate legitimately in North Carolina under statutory law.

Michael: So, you pay that franchise fee in North Carolina?

Gary: Right, I would have to pay it in North Carolina.

Michael: Why do you say a franchise fee?

Gary: Well, it's basically the right to operate in the state. Many times they're called corporate fees, annual fees, franchise fees. It's not a franchise. It's a business.

Michael: What would something like that cost?

Gary: In North Carolina, to have a foreign LLC to do business in this state, the annual fee is about the same as it would be for domestic. You're not really saving any money. However, there's another ploy you could take here.

You could say, "Okay, I have a Nevada LLC, and I have a North Carolina or California LLC that's going to enter into a contractual relationship with the Nevada Corporation to provide management fees or other administrative duties or some other administrative operations that the company needs, and we're going to remunerate that company out of the proceeds of our domestic company."

So, you could get the majority of your profit over to Nevada where you don't have a state tax, and you don't have many of the other taxes, and plus you've got much more privacy over there because Nevada really doesn't cooperate with the IRS on letting information loose.

Michael: They still hold pretty strong.

Gary: Yeah, they're still pretty tight on that. So, basically, their governor has said, "Go away. We don't want to talk to you."

Michael: How about Nevada Corporations?

Gary: Nevada Corporations are basically the same way. They have a lot of asset protection, but there again, you've got some double taxation problems with Nevada. So, you've got to make sure you understand that, and you can abort paying that fee twice. So, that's another wonderful thing.

Now, if we continue on our little motto remember to enjoy everything, but own nothing. Let's talk about judgment proofing your life by having separate entities and multiple businesses. Let me give you a couple of examples.

You could survive a lawsuit in one entity because it's really not connected to the other entity. It has a separate ID and EIN number and as we discussed before, you could have a C-Corp to be a general partner to a Limited Liability Company. You could also have a limited partnership and have probably superior asset protection in certain jurisdictions than you have in others.

Now, you can frustrate creditors. We talked about that, that if you've got a plaintiff who's successful against you in a court of law, you can frustrate him by continually moving your business entities around.

Have you ever seen a Hardies or a McDonald's? They've got a very successful location, and one day, you drive by there and the place is boarded up and it's closed.

Michael: Yeah, I have seen that.

Gary: And, you drive two blocks down the road and there's a brand new McDonald's or Hardies.

Michael: What do you think that's all about?

Gary: Well, it's called bankruptcy. The location wasn't paying. Now, they're just going to close it down. Take a nice write-off, and the franchisee has moved to a new location under a new corporate LLC name and can start depreciating that property all over again, and write-off his losses from the old location. Isn't that nice? So, it's just another move to increase profits.

Michael: I see. So, if you do have a lawsuit against you, and you get sued and you get a judgment against one of your entities, you can just claim bankruptcy. Will a bankruptcy protect you from any judgment?

Gary: Yes, if it's not filed after the fact because you've got to obey the badges of fraud, but generally if there hasn't been a lawsuit filed, you pretty much can be safe moving your assets, but if you know a judgment's coming and there hasn't been any paper's filed, it wouldn't be a good idea because you're going to be caught for fraud.

Michael: Okay, so how are we going to frustrate creditors then?

Gary: We're going to frustrate creditors by having a limited liability company that restricts their ability to sue the company.

Michael: Like we talked about earlier.

Gary: Right, but you can also frustrate creditors by going bankrupt before they come after you.

Michael: Got you. This is before it's actually filed. You know when you're in trouble, and you could preplan on that.

Gary: Yes, you can.

Michael: Legitimately and ethically.

Gary: Yeah, and there are ways to do that. Now, there are times to ante up and pay your way if you're at fault. The other side is you don't have to let a frivolous lawsuit ruin your lifetime's worth of work. You can also discourage predatory litigation, and we've talked about that.

Now, how about if some guys and business ladies who are very entrepreneurial, very well meaning, they thought they had a good idea, and they went out and invested their life savings into a new business venture, and it wasn't successful, and you lost everything you had, and they had to file for bankruptcy. First of all, that didn't have to happen. How can you start over when you've been bankrupt?

Many people say it's going to take you seven years to regain your credit, and you're going to have to work hard to get your credit rating back up to where you'll be able to borrow money again, but the issue here is you don't have to worry about that. You can set up a limited liability company or a corporation, and let it develop it's own credit and start over in life. Operate a business, and continue on.

Michael: That's exactly right.

Gary: It is wonderful because it's a separate person. It is not you. Now, if it comes to the point that the banks want a signature of guarantee on a loan or something, first of all, you're talking to the wrong people about a loan. Banks are not where to go. It might be better to go out and find a private lender to lend you the money. If banks are charging eight percent, and you have to give a private lender ten percent to rebuild your credit, that's a small price to pay for freedom of starting over again.

Michael: I like this. One of the entities is a solution for someone who has built a business under a sole proprietor and it has failed and filed bankruptcy. It doesn't mean it's the end. They could instantly, even after they've filed

bankruptcy, start another business, but under a corporation or LLC or one of the other entities we've talked about under a federal ID number, legally and ethically. There's nothing wrong with that.

Gary: Talking about being born again. It's a way to be born again. Let's talk about disability because that falls along this same line. I know many military type people who have become disabled and they're drawing the disability check or their own social security disability, and they're under the assumption that they really can't make any more money than the \$1,200 to \$1,500 a month that they're getting, but that is not necessarily so because they're benefit is predicated upon on earned income.

Well, if they've got a business that they've invested in and they're getting income, a K-1 distribution from that business, that's not earned income, sir. That is passive income.

Michael: The distribution is passive income.

Gary: Right, so it would not disqualify them for their disability.

Michael: So, they can invest as a limited partner in a limited liability company and earn passive income?

Gary: They could be a general partner and earn passive income. Isn't that wonderful?

Michael: The dividends from a general partnership, if they're the general partner, could be passive income?

Gary: Distributions to the members of the LLC are not earned income unless they're on the payroll and receiving a 1040. They're only receiving passive income.

Michael: Go to the tax consequences on the difference between earned income and passive income. Let's say I earned a hundred thousand dollars a year as passive income compared to earned income. Is there a benefit for me there?

Gary: Yes, because the earned income is going to be reported on your 1040 as wages or compensation, and the distribution are only a return on investment. It's totally treated differently in the tax code.

Michael: Who pays more?

Gary: Generally, the individual pays more because I'm not going to take the distributions in my own name. I'm going to have another entity to receive

those that's got internal expenses and costs to reduce your amount of those distributions.

Michael: And, this is all another additional strategy and benefit of having this set up properly.

Gary: Absolutely, and it's totally legal. I do not propose anything to my clients that are not supported by case law.

Michael: So, for all those people that are out there who are retired taking disability, they really believe that they can't earn money because of this.

Gary: And, it's not true.

Michael: Also, people who have been injured. Disability is when you have been injured and you're getting payouts from them.

Gary: Right. So, there's actually more freedom than we're brainwashed to believe in this country, and it's just a matter of knowing and understanding a uniform commercial code, and knowing what your options are.

Michael: Having the knowledge, or knowing someone who has the knowledge.

Gary: And, the experience. When I had the glass company, one of my employees returned a customer's car, actually a Toyota pick-up truck, and plowed into a car full of people, and when the officer's checked his blood, he was on cocaine. I had no idea I had a drug addict working for me, and I really lost a lot of money because I wasn't set up properly. Did I learn a lesson, and I went looking for solutions and had to educate myself, and that's why I picked up some of this knowledge.

Now, are we talking about sexual harassment?

Michael: Is this common out there?

Gary: It is very common. If a woman's not promoted or a person of a different sexual persuasion is not promoted, many times they will come after you basically to claim that you harassed them or you were discriminatory against them because of their lifestyle, and many times these are frivolous lawsuits. Some of them are very justifiable and need to be handled appropriately and settled, but some of them are very frivolous and it's just basically a suit of revenge.

Well, if you don't own anything, what are you worried about? It's very important to understand the concept of not owning but enjoying.

Now, there's strategies for rental property owners, and let's talk about some of those. When people own property in their own name and rent it out, do you realize how much liability they're incurring? You've got all kind of problems. What if that property, unknowing to you before you bought it, was actually an environmental dump area? There's all types of poisons on the property. What if that property had previously been painted with lead paint and you've got a child picking at that painting and eating it? What if you have a rape upon that property? Are the renters going to claim that you didn't provide proper security?

There's all types of crazy things that happen and you need to protect yourself.

Michael: We're talking about people who want to buy a second piece of property and rent it out as an investment, whether it's one additional house.

Gary: Yeah, whether it's one additional house or a number of houses, I know people that start out buying houses at foreclosures and at auction purchases and tax sales and tax lien sales and things of that nature, who start off with one piece of property, and use the rental income to live off of for about twenty years, and then they go in and glean the equity off the property, sell them and use it for their retirement.

They start out with one piece of property and they end up with ten, fifteen, twenty properties.

Michael: All in their own name.

Gary: All in their own name. So, one problem on one property could cause them to lose their entire life assembly of wealth including their own personal residence.

So, what I advise clients to do is, "Look, it's going to be too laborious to have twenty limited liability companies, but you could use a multiple LLC", and that's a little too complicated for our conversation this afternoon. But there are LLCs that have LLCs within them to own each separate property.

But, the cleanest way to do it is to set up a limited liability company that owns three properties, and every limited liability is set up to own three properties. Therefore, if one limited liability company gets sued, the worse that could happen if they're successful in their judgment is to claim three properties, but not the other seventeen. So, you've still got a base to rebuild from.

Another strategy that I use is for property developers. Developers who are buying property, developing that property and then building houses on that

property, installing the housing with the lots. It's nice to have each of those stages under a separate limited liability company. The worse thing that could happen if you're buying raw land and having that land graded and prepared for housing sites and piping and plumbing and drainage systems put in, is for someone to get killed upon that property doing that process and destroy your whole future.

Michael: So, you're talking about putting the land in one entity and then the actual construction in another entity.

Gary: Have a development company, a construction company, and a sales company.

Michael: And, you can do that?

Gary: Yes, you can do that. Another thing you want to do is make sure that you understand that separate entities are totally legal, and that you have many advantages in separating your entities and your wealth from your liabilities.

Another thing that's very big in my part of the country is trucking companies that do a lot of long haul freight. You're talking about rigs in excess of \$150,000 or \$180,000, that have huge interest on them. It's pretty cheap insurance to spend \$125 to establish a limited liability company to own that one truck, and if that truck has an accident you're not going to lose your entire fleet.

Michael: Yeah, I've got you. If you're a trucking company, put each truck in a limited liability.

Gary: In a separate limited liability company.

Michael: Yeah, that makes sense.

Gary: Now, let's talk about how you can buy your home that you're living in at a seventy percent discount. Does that interest you?

Michael: Absolutely, tell me.

Gary: Okay, if I work for a company I can make an agreement with that company, that yes, I'll come to work for you, but in return you're going to pay me \$100,000 a year. You're going to pay for all my eyeglasses. You're going to pay for my dental and my health, and you're going to provide me a golden handcuff retirement program. You're going to provide me with a 401k and deferred compensation. These deals are made everyday.

Michael: Yeah, with big corporations. I have a brother who just moved to England, and it was an international company and that's exactly what they offered him – a place to live, a car, everything.

Gary: Right. It's done everyday, and if a big company can do it, why can't a small company do it? The truth is they can. Without getting into all the details of the other ancillary benefits as I mentioned, let's just concentrate on the house for a moment.

Michael: All right, how do I get it at seventy percent off?

Gary: Okay, I have a house that's owned by a limited liability company. So, it enters into a lease agreement with the company that I'm going to work for. Now, that house is worth \$400,000, for example. I don't live in anywhere near that expensive a house, but I'm sure that the houses I have here would probably cost a million dollars where you live, but the lease on that house – the payments are actually running about \$2,000 a month. The company is willing to lease it to my perspective employer for \$4,000 a month.

So, my perspective employer says, "Yes, we will provide you a place to live, but by the way, Gary, you've got to pick up that \$4,000 on your 1040." "Okay, I have no problem with that, but why is that?" "Well, the IRS considers that compensation and it has to be picked up on your 1040."

Okay, so we're going to take \$4,000 a month times twelve months, \$4,000 a month times twelve months which is \$48,000. What's my tax liability on the \$48,000? Approximately 30-35 percent.

So, that company is buying the house for a seventy percent discount because my actual law of cost is only my tax liability. Isn't that unique?

Michael: That is pretty cool.

Gary: So, now what kind of equity do you have? You can even own the house in your own name and get a better deal or maybe not because the limited liability company can do some depreciation schedules on the company owned property.

Michael: That is a great strategy.

Gary: Sure, I just thought that would be a little tidbit that I could throw in there. Also, if you have a limited liability company, and you needed cars, why do you want to buy a car in your own name when you can have a company that can go out and purchase fleet cars at a fleet discount? That's done everyday.

Michael: So, how do you do that?

Gary: You go to the dealership and you say, "I have a company. I need to buy a regular, on the road vehicle, and we also need an SUV, and we need a truck."

Michael: And, you get a fleet discount?

Gary: You get a fleet discount because the company's buying it. The individual's not buying. Listen, if you're a company buying vehicles and you know that you're using those and you're going to be buying and selling and trading every two to three years, they're going to bend over backwards to make you a deal especially in a buyer's market like we have today.

So, that's a very good benefit to having your own company.

Michael: I didn't get this home thing. Let's do the home thing again. Now, show me how I can buy a home at a huge seventy percent discount, but I want you to use me as an example or you as an example. Give me an example so I can follow along.

Gary: Okay, Michael, you created a company, and you want to go to work for that company.

Michael: I'm creating this company to protect my assets, right?

Gary: Well, for any reason.

Michael: Let's say I have an existing company right now.

Gary: You have an existing company, and they're looking for a manager.

Michael: Okay.

Gary: And, you're available. Just because you're the general member of that company doesn't mean that you have to carry on the managerial administration, you understand. So, they're looking for someone to come in and be a day to day manager.

Michael: My company is.

Gary: Yeah, your company is.

Michael: So, let's say my company JS&M Sales & Marketing.

- Gary: Right, JS&M Sales & Marketing can hire you with an agreement that your company is going to provide you, their employee, the place to live, free eyeglasses, they're going to pay for your dental. They're going to pay you a golden handcuffs plan. They're going to provide a deferred comp plan and a 401k plan, and make you an offer. So, you say, "Yeah, I'll do that only if you also throw in a place for me to live."
- Michael: Okay, got it.
- Gary: So, what they do is now they've going to go out and look for a house to provide you to live in.
- Michael: They limited liability or my company entity is going to buy the home to satisfy the agreement for the employee, which is me.
- Gary: For your employment, that's right. It just so happens that an entity that likes you very well has a home for lease, or you have a home that you're willing to lease to them that you own in your personal name.
- Michael: Okay, so my existing home that I have in my personal name is willing to lease it to my limited liability company.
- Gary: Right. So, a lease agreement is actually drawn up and signed, a written agreement. Remember, always do everything in writing, and get it notarized and signed and witnessed if necessary, and so an agreement is entered into where they lease the home to provide you a place to live.
- Michael: Me and my family.
- Gary: Right.
- Michael: So, I'm going to lease my existing home to my company.
- Gary: Right, not exactly your company.
- Michael: The entity.
- Gary: Right, so that entity is going to provide you a place to live.
- Michael: I've got it.
- Gary: You're going to go work for them and do the things that you're probably already doing anyway, and you're going to have a new employment agreement signed where they're going to provide you all this.

So, let's say the home is worth \$400 or \$500 thousand. The monthly payments on that home are about \$2,000. So, the lease agreement is entered into at \$4,000 a month, and that's not excessive. If you look around in your area, \$4,000 is probably common.

Michael: So, the entity is going to pay \$4,000 a month to lease the home to me.

Gary: Right, but the entity lets you know that, "Hey, Michael. This is a benefit. We've got to report this benefit on your 1040." So, they're going to add an additional \$4,000 a month, or \$48,000 a year to your 1040.

Michael: And, that's going to go on my 1040, and what's that going to be claimed as.

Gary: It's going to be claimed as compensation.

Michael: Is it going to be claimed as earned income, in the same category?

Gary: It's taxable compensation or taxable earned income. That's right.

Michael: So, I'll be taxed on that 48 grand.

Gary: Right. Let's look at the real situation here. That \$48,000 represents a taxable transaction to you, but just because the tax may be due doesn't mean it has to be paid. It depends on what other deductions you have personally on your 1040. If you're in the 30 percent bracket, you're probably going to pick up and have to pay a twelve to fifteen thousand tax bill depending upon which bracket you're in.

So, what are you really paying for your house here? You're just paying the tax liability. You're buying a \$400,000 home for twelve to fifteen thousand dollars a year. It's a pretty good deal. Isn't it?

Michael: Yeah, how does the entity benefit from a tax point of view?

Gary: Well, if you own the house in your personal name, your actual out of pocket is only your tax payment, but if it's the entity, then the entity, of course, is having the house paid for because of the spread in the lease agreement, and it's also able to do depreciation upon that property. Of course, you have to remember, depreciation is always reclaimable upon selling the property.

Michael: Excellent. I like that, and that's done all the time by companies.

Gary: It's done all the time by companies. In fact, many companies own leasing companies to set up these arrangements. You can accelerate your retirement plan by legally reducing the contributions to your employee's retirement plans

by having separate entities that have employees or not. You can rent your employees. It's a big business nowadays called employee leasing, and you can have an unlimited tax free retirement.

By that, I mean if you've got a separate corporation or separate LLC and you're the only employee, can they not buy a huge life insurance policy on you? Sure they can because if something happens to you, there's no business. So, they can go out and buy a five million dollar whole life plan. It's got an internal tax build-up, and I know that goes against the common grain of buying term. That's the difference, probably the people that buy the term that they never invest in them.

If you could have that build-up, and that could be a variable life or something of that nature where you've got excess in gains in the market, but the nice thing about a life insurance policy is all cash value can be loaned income tax free. So, if you've got a five million dollar policy that has three and a half million dollars in it when you got ready to retire and cash value, you could borrow out that three and a half million dollars, and all it's going to do is reduce your death benefit by the amount you borrowed out.

Michael: Yeah, it's just a loan. You don't pay any tax on it.

Gary: You never have to pay it back either. This is the insurable amount. So, you have an unlimited tax free retirement. Now, you've got to be careful because there's limitations upon what is just compensated. Most of the time they have a limit of \$55,000 if this is a corporation, but we're not talking about a corporation. We're talking about a limited liability company that has a separate contract with an entity. You can also have insurance on yourself, buy and sell agreements between you and your wife.

If there's a tragedy, if you're a general member, a limited member, and she's a limited member, they're could be huge life insurance there if something tragic happened and really set your children up for life for pennies on the dollar and it's tax deductible by the entity, if it's properly set up.

So, those are many of the ideas that I have today to share with you, and I think we're probably on brain overload at this point.

Michael: This has been a lot of information. I got it. I can definitely see the importance of this. I think everyone knows how important this is, but it's almost like when you're selling a preventative, people don't want to really think about these terrible things that can happen, but certainly they do and the proper planning ahead of time is so important.

What would you tell someone that doesn't want to face reality of how important this is? If you were to try and convince someone how important this is to properly plan this stuff, and how you could solve this problem for them by doing all the hard work – is it going to be a pain in the butt for someone getting this set-up, or is that what a professional financial planner, and like with all your designations does? Do you make it an easy process?

Gary: It is not necessarily an easy process to get it done. It is very easy to set up a limited liability company. It just takes money and time, and the proper structures and the proper documents, but the biggest problem I have with people is to get them to stop and think. I don't try to teach people a lesson or scare them. I just try to rattle the bird cage a little bit so they'll change their paradigms.

Let me ask you a question. Is what you see really what you see? Is it real or is it an illusion? Is there a different way to think about this? Is it possible, just barely possible that you could ever be sued?

If you understand that what you see is not necessarily true or real, that it's an illusion because of the type of education – we're all told to go to work and go get us a college education, work real hard and get a job and we'll be successful, but I know a lot of computer programmers are looking for work. Computer programmers are a dime a dozen nowadays. Ten years ago, that's where they were leading everybody to.

It takes an unusual person with an unusual attitude to be successful in the world today. It doesn't come free. You have to work for it, and you're going to spend your lifetime or the next few years amassing some money, doesn't it make sense to ensure your success?

Now, you can go out and buy traditional insurance and do some of the traditional type planning, or you can learn to play chess by your rules. I would rather play in my front yard with my ball, and if you don't like my rules, then I'm going to take my ball in the house, and you can go home. And, that's the nice thing about properly structuring your business in that you write the rules, and you can protect your lifetime's work by taking a little time now to set up your business properly and to listen to some coaching and some guidance and establish the thing the way it should be the first time.

For some reason the life, there's always time to do things right the second time around, but it's much more prudent, efficient and effective to do it right the first time out.

So, let me ask you a question. If you're going to put all this effort into establishing a business, and that business becomes successful, are you willing

38

to lose a lifetime's worth of work because you were too lazy to do the work on the front-end? I know that's hard talk, but you need to hear this. So, my question is if you're serious about protecting your future, then I am serious about helping you, but if you're not concerned about and you're going to be like most people and turn over your stock portfolio to a broker to operate on autopilot without any input or guidance from you because you want to go party instead of taking a couple hours a week and managing your money, then you deserve what you get.

But, if you want to have a successful investment experience, then you need to take control of your life and not farm it out. So, yes, I'm going to ask you to do some hard work, but the other side of it is it's for your benefit. Anything worth having is worth working for. Life is like a garden. It's only successful if you work at it, and knowledge is not power. Knowledge applied with God's guidance is power.

So, my question is are you serious about starting the right way, or do we go our separate ways?

Michael: Very good, that's awesome.

That's the interview with Gary Seed. I hope this has been helpful, and if you are interested in restructuring your business, or you're thinking about starting a business and you'd like to email Gary about anything at all, please email gary@hardtofindseminars.com, or call 858-274-7851. Gary has generously offered to do a 15 minute consultation to review your existing business structure and to offer all his best advice within that 15 minutes. I hope this has been helpful, and thank you.