FREE MONEY INSIDE

INSTANT & PERFECTLY LEGAL TAX REDUCTION PRESENTATION:

How To Legally Slash Your Tax Bill To The Bone

Michael Senoff Interviews Foremost US Tax Reduction Expert

By Michael Senoff

Michael Senoff's HardToFindSeminars.com

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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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How to Legally Slash Your Tax Bill To The Bone

PowerPoint Transcripts

After you read the transcripts to this presentation you'll know how to stop over paying Uncle Sam and learn how to keep more of your paycheck.

YES, you can cut your taxes to the absolute legal limit with this information – and legally including over looked deductions, write-offs, and tax strategies. It's all here in this Instant Tax Reduction Presentation...

This Presentation doesn't just tell you how to prepare your tax return; it shows you how to cut your taxes to the bone – with step-by-step strategies and easy-to-folly directions. You'll find out how to cut your taxes and keep more money in your paycheck each pay period by:

You'll also learn...

- ✓ How to shift income and deductions and save a bundle
- ✓ How to utilizing college planning, mortgage and home equity tax loopholes
- ✓ Capitalizing on IRAs, tax-deferred compounding, and Social Security
- ✓ Choosing tax-advantaged investments
- ✓ Getting tax breaks from your business or employer
- ✓ Using perfectly legal reporting tricks on your next tax return

Let your next 60 minutes help you start making the tax-planning decisions that will put more of your hard-earned money in your pocket... not the government's!

About the Author...

Ed "The Tax Man" is a licensed tax attorney. He began his career on the congressional staffs of Jack Kemp and Dick Cheney. As a member of the National Underwriter Company, he edited Tax Facts on Insurance and Employee Benefits and Tax Facts on Investments.
Ed has published articles on various aspects of financial-planning industries in numerous professional publications. He is an award-winning speaker who has developed and delivered seminars on tax and financial-planning issues to diverse audiences. Let's get started.

Slide 01
Legally Slash Your Tax Bill to the Bone

Hi, I'm Michael Senoff, Founder and CEO of www.hardtofindseminars.com. For the last 5 years I've interviewed the world's best business and marketing minds. Along the way I've created a successful publishing business all from home from my 2-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 on-line, downloadable audio business interviews. I knew I needed a site that contained strategies, solutions and inside angles to help you live better, to save and make more money, to stay healthier and to get more out of life. I've learned a lot in the last 5 years and today I'm going to show you the skills you need to survive.

It is my mission to help you who are very busy with their careers handle your lives more efficiently, to bring you the best information from the most knowledgeable sources and for you to select and generate that information free from outside advertising. And to give you access to this information quickly in a downloadable format that you can take with you on the road. Now let's get going.

Michael: Hi, it's Michael Senoff with Michael Senoff's www.hardtofindseminars.com. I want to welcome you to a very special presentation called "How to Legally Slash Your Tax Bill to the Bone". After you watch this presentation, you'll know how to stop overpaying Uncle Sam and learn how to keep more of your paycheck. Yes, you can cut your taxes to the absolute legal limit with this information, including overlooked deductions, write-offs and tax strategies. It's all here in this tax reduction presentation. This presentation doesn't just tell you how to prepare your tax return; it shows you how to cut your taxes to the bone with step-by-step strategies and easy-to-follow directions. You'll find out how to cut your taxes and keep more money in your paycheck. You'll also learn how to shift income and deductions to save a bundle. You'll learn how to utilize college planning, mortgage and home equity tax loopholes. You'll learn about capitalizing on IRAs, tax deferred compoundings and Social Security. You'll learn how to choose the right tax advantage investments. You'll learn how to get tax breaks from your business or employer. Let the next 60 minutes help you start making the tax planning decisions that will put more of your hard earned money in your pocket. This special presentation is with Ed, the Tax Man. Ed is a licensed tax attorney. He began his career on the Congressional staffs of Jack Kemp and Dick Chaney. He's published articles on various aspects of financial planning industries in numerous professional publications. He is an award winning speaker who has developed and delivered seminars on tax and financial planning issues to a diverse audience. What are we waiting for? Let's get started and start saving money on taxes. Enjoy.

Slide 02
The 8 Most Expensive Tax Mistakes That Cost You Thousands

Ed: I'm here with Michael Senoff from www.hardtofindseminars.com and we both want to welcome you to this presentation. We're going to cover some of the mistakes and missed opportunities that cost business owners thousands of dollars per year in taxes. For those of you who have already heard the question and answer, we want to welcome you to the presentation and if you haven't already done so, please download the accompanying PDF file with the Power Point slide presentation that will give you some visual reference and some permanent notes for the topics that we're going to talk about during this presentation. If this seems a little overwhelming, take a copy of this presentation, along with a copy of the PDF to your accountant or financial planner. It's worth it to pay them to go through the presentation on your behalf. One good idea can save you dozens or even hundreds of times that cost.

Mike, do you find that your customers are happy with the taxes they pay?

Michael: I find that no one likes paying taxes, Ed, no one.

Ed: The first thing they taught us in law school; never ask a question if you don't already have the answer. Are you and your customers confident that you're taking advantage of all the deductions, credit loopholes and strategies that are available?

Michael: Absolutely not; absolutely impossible. I have a CPA but not once has this guy in 5 years ever called me and said, "Hey Mike, I've got an idea to save you more money on taxes". It's always the other way around; me showing him ideas. And with everyone's busy schedule and my busy schedule, it's the last thing I want to think about. I'd rather get a root canal. And it's stuff that people naturally avoid; so no.

Ed: It's stuff that they avoid but it's information that they need. I've got bad news; I've got good news; and I've more bad news. You're right; you do pay too much tax. And nobody listening to this presentation is taking advantage of every deduction, credit loophole and strategy, simply because there are so many. Most accountants do a fine job recording history, the history that you give them. But there's very little proactive tax planning and that is the key to beating the IRS legally . . . planning.

Slide 03
April 15?

Ed: I don't care how good your accountant is good with a stack of receipts on April 15th. If you didn't know that you could set up enough corporation to minimize your employment tax; if you didn't know that you could hire your college age daughter so that the money that goes to her tuition is taxed at her lower rate instead of yours; if you didn't know that you could set up a medical expense reimbursement plan and write off your son's braces or your Lasik surgery as a business expense, by April 15th it's just too late to do anything about it. That's the bad news. The good news is you don't have to feel that way. You just have to have a better plan. If you're starting a business, you're going to do a business plan. If you're looking to marketing a product or a service, you're going to do a marketing plan. If you're looking to plan your estate, you're doing an estate plan. Well, why would you expect to minimize your taxes without going through that same exercise? So the good news is you don't need to fret; you just need to have a better plan. The bad news is the clock is always ticking and taxes are not a once a year exercise. Too many people accumulate receipts in shoebox, take them to the accountant on April 15th and expect some magic. The taxes and your relationship with your accountant should be a year round relationship. Take a look at the 2nd slide in the Power Point presentation.

Slide 04
Great Quotes

Ed: Supreme Court Justice Oliver Wendell Holmes says, "Taxes are the price we pay for civilization." Well, I say why pay retail? So what I want to do over the rest of our time together is walk through some of the most expensive mistakes and missed opportunities that cost your customers and our listeners thousands of dollars a year in taxes. And at the end we'll offer some strategies and some information on how you can actually implement these strategies.

Michael: Okay, that sounds great.

Ed: Take a look at the next slide titled "Failing to Plan" and that is the number one mistake, failing to plan.

Slide 05
Mistake #1: Failing to Plan

Ed: That is the number one mistake, failing to plan. You've heard it said that if you fail to plan, you plan to fail. Well it's a cliché because it's true. And tax planning is important for 3 reasons. First of all, it's the key to your financial defense. Mike, as a business owner you've got 2 ways that you can put money in your pocket. There's financial offense, which is making more; and whatever business you're in, selling more, seeing more prospects, more marketing. Financial defense is spending less and you're usually going to have more control over your financial defense than your financial offense. It makes sense to focus your financial defense on taxes for a couple of reasons. First of all, for most of us, taxes are our biggest single expense or second biggest single expense; bigger than our mortgage payment, bigger than our health care costs, bigger than our kid's education costs. It makes sense to focus your financial defense where you're going to get the most bang for your buck. I mean, sure, you can save 15% on your car insurance by switching to Geico, but what's that really going to do for you in the long run. The second reason why it makes sense to focus your financial defense on tax planning: generally when you pay less for something, you get less. You pay less for a car, you get less car; pay less for a computer, you get less computer; pay less for advertising; you get less exposure for your business. Well, for better or for worse, when you pay less tax you don't get less government. The military is still going to have the money to get Sadam Hussein out of his spider hole; the highway department is still going to have money for the orange barrels. So it makes sense to focus your financial defense in an area where it's not going to cost you.

Michael: That's a good point.

Ed: The second reason, you can spend a lot of time, effort, energy and money promoting your business, but you're not going to guarantee results. On the other hand, if you set up that medical expense reimbursement plan, you're going to save money, guaranteed by the U.S. Government. Third reason, it's not the most important one but it's my favorite one; beating the IRS is fun and you see on the slide there's a picture of a swimming pool. Well, for lots of my business owner clients, that's not a swimming pool; that's an on-premises employee athletic facility. My seminar audiences laugh but that is a legitimate deduction under Internal Revenue Code Section 132j4 and later on in this presentation we're going to tell you how you can write off your swimming pool as an on-premises employee athletic facility. Let's take a look at the next slide, headlined "Taxable Income".

Slide 06
Taxable Income

Ed: I want to start by outlining very briefly how the tax system works to lay down a foundation for the specific strategies we're going to discuss. It starts with earned income from your business or your job; investment income, interest in dividends, capital gains, retirement income, alimony, gambling winnings. Even illegal income is taxable. The IRS doesn't care how you make it, they just want their cut. Now the good news is, if you're running an illegal business, you can write off the costs of running that business. So if you're a bookie for example, you can write off the cost of the cell phone that you use to take bets. About the only thing you can't write off are truly illegal expenses. So your bottom line total income is everything that's going to be subject to tax.

Slide 07
Adjustments to Income

Ed: Now let's take a look at the next slide, "Adjustments to Income". These are a set of specific deductions that you take on page 1 of Form 1040; that's going to be half of your self-employment tax. But we'll talk in a little bit about a strategy for cutting that bill before it even gets there. Self employed health insurance you pay, which is a big one for anyone making their own health insurance premiums. HSA and MSA contributions to health savings accounts and medical savings accounts, retirement plan contributions, moving expenses, educator expenses, student loan interest; even alimony that you pay is deductible.

Michael: So these adjustments to income, these are just some of them.

Ed: Right, some of the adjustments to income that you'll take on the first page of 1040; these will be the biggest ones.

Slide 08
Deductions

Ed: The next step is to take off itemized deductions; those are going to be medical and dental expenses if they're more than 7 1/2% of your income; state and local taxes if you're not subject to AMT (Alternative Minimum Tax), mortgage interest, charitable gifts, cash lien theft losses and miscellaneous itemized deductions. You take your deductions and your personal exemptions; that's going to leave you with taxable income. So let's move on to the next slide, "Tax Brackets".

Slide 09
Tax Brackets

Ed: The table of Tax Brackets tells you how much tax you actually pay on your taxable income and as you can see, those brackets get to 35% for income above $349,700 a year.

Slide 10
Tax Credits

Ed: Next step and the next slide is to subtract any available tax credit; that's going to include family credits like the child tax credit if your income isn't too high to phase it out, education credits like the Hope Scholarship and Lifetime Learning Credits, again if your income isn't too high to phase them out. And finally you're going to stroke a check to the IRS.

Slide 11
Two Kinds of Dollars

Ed: But here's the bottom line, here's what mom never told you. As the next slide shows, there are 2 kinds of dollars in this world. There are pre-tax dollars and there are after-tax dollars. And there's nothing wrong with after-tax dollars. If you go to the grocery store to buy food to feed your family, they're not going to say; oh we can't take this money, its after-tax dollars. But after-tax dollars aren't as good as pre-tax dollars.

Slide 12
Keys to Cutting Tax

Ed: So here's our fundamental lesson. Take a look at the next slide, "Keys to Cutting Tax", and its right there. You lose every time you spend after-tax dollars that could have been pre-tax dollars. Makes common sense, right? You lose whatever tax you pay every time you spend after-tax dollars that could have been pre-tax dollars. So we've got 3 main strategies for converting as much of our after-tax spending to pre-tax spending as possible.

Michael: Give me just a remedial example of what a pre-tax dollar is and what an after-tax dollar is before we go into these examples.

Ed: An after-tax dollar is simply a dollar that you've paid tax on. You've earned a dollar in your business or at your job; you've paid tax let's say at the 25% tax rate and now you've got 75 cents left over to count versus a pre-tax dollar. Let's say you run a business, you're an independent consultant, and your daughter needs braces. You can earn money in your business, pay tax on it, and pay for her braces with those after-tax dollars. Or you can set up a medical expense reimbursement plan, pay for the braces out of the business with pre-tax dollars (that's money that doesn't get taxed), and now instead of having 75 cents of that dollar to spend on your daughter's braces, you've got all of that dollar. So you lose whatever tax you pay, in this case the 25 cents, every time you spend an after-tax dollar that could have been a pre-tax dollar. And my frustration is how many people I see who just don't get the information from their accountants to turn those after-tax dollars into pre-tax dollars. So, 3 strategies: first, earn as much non-taxable income as possible. If you can structure your business so that you're taking non-taxable medical expense reimbursement benefits, non-taxable employee benefits, that's a better way to pull money out of your business than to simply take cash and pay tax on it. Second, you want to make the most of all the available adjustments to income deductions and credits. And there's really no magic to it other than knowing what's available. I'll wager that most people listening to this presentation didn't know that they might deduct their swimming pool as an on-premises employee athletic facility.

Michael: Right, I didn't know that.

Ed: And the third strategy is to shift income either to later tax years or lower bracket tax payers. So you may be self employed, married, in the 25% income tax bracket paying 15% self employment tax, maybe 10% state income tax, depending on where you live. There are people listening to this presentation who are in the 40 or 45% tax bracket. But their children in elementary school, grade school, high school, college, are probably in the 0% tax bracket. So there are ways that they can save money by shifting income from themselves to their children. We'll talk about those in a little bit as well.

Slide 13
#2: Wrong Attitude

Ed: Alright, let's take a look at the next slide. The "2nd Mistake: Wrong Attitude", and I want to draw a very important distinction between aggressive tax planning and proactive tax planning. I get questions all the time, is this a gray area? Is this a red flag? Is this going to get me in trouble with the IRS? And the truth is, you don't have to be aggressive to beat the IRS legally; you do have to be proactive. Aggressive tax planning, pushing the limits, pushing into gray areas, pushing into red flag areas, that may save you money but a lot of people just don't feel comfortable with it. I've had people tell me if I don't get audited every year, my accountant's not doing their job. And I think, well that's more aggressive than most clients want to be. Proactive tax planning, though, is the process of looking at every aspect of your income and expenses to do it all at the most tax effective way. Find black letter, legitimate tax planning opportunities wherever possible. And if you take advantage of those opportunities, you really don't need to be aggressive. You know, when I do my seminars with the big audiences, I ask people have you ever sat down with your accountant on April 15th and heard him or her say, I wouldn't do this; it might raise a red flag? And lots of hands go up. Then I ask, did the accountant explain exactly what the red flag was? And hands start to go down. Did the accountant tell you what your odds of being audited would be before and after taking this deduction? More hands go down. Did they tell you what the consequences of an audit would be? Would you be able to win in an audit? Did anybody get a second opinion? Mike, if your doctor told you needed surgery, you'd probably get a second opinion, right?

Michael: Absolutely.

Ed: Well, the IRS performs surgery every day. They remove cash from your wallet and they don't use anesthesia. I just find it a shame when people say, oh my accountant is so conservative and they think that being more effective on their taxes means being aggressive. It really doesn't. There's nothing wrong with a conservative accountant if that's what you want as long as that account is being proactive. You see the distinction I'm drawing here? It's a very important one and clients can be proactive and know that they're minimizing their taxes right down to the absolute legal minimum without worrying that they're veering into gray areas or red flags.

Slide 14
#3: Wrong Business Entity

Ed: Let's take a look at the next slide, "#3: Wrong Business Entity". For most small businesses, choosing the right business entity is the fastest way to minimize their tax bill. And what you see here is a simple pie chart of a sole proprietorship's tax structure. Most of us who start businesses start out as sole proprietors. We earn income and pay expenses individually as a sole proprietor. At the end of the year we file Schedule C with our personal tax return. We report our net income from the business on the Schedule C. We pay income tax on our net profit from the business and we pay self employment tax up to 15.3% on that net profit. Now you don't mind paying yourself employment tax, right? This is what replaces Social Security for you as a self employed person and the money's going to Washington and New York and sharp hedge fund managers in Brooks Brothers suits are investing the Social Security trust fund for our retirement, right? Of course not. The money comes into the Social Security system and it goes right back out to somebody who's on Social Security now. Average Social Security benefit in 2007 is right about $1,000 a month. So if you're self employed earning about $85,000 a year, you're actually supporting a retired person all by yourself. I'm sure she's a very nice grandmother in Des Moines, Iowa or Sioux Falls and she sends you a basket of muffins and a thank you note at Christmas. Did you get that?

Michael: I did not.

Ed: I think my kids intercepted mine. Well, what if there were a way to lower that self employment tax bill and instead of investing it in Social Security where you're not going to get much rate of return, you can spend the money now or invest it in your own retirement. And for most business owners, the vehicle for doing that is an S-Corporation.

Slide 15
Proprietorship vs. S-Corp

Ed: Take a look at the next slide, "Proprietorship vs. S-Corp.". An S-Corporation is simply a corporation that elects not to pay tax itself but to pass through the income to the owners. A traditional C-Corporation pays tax at the corporate level, then if it issues a dividend to the owners, the owners pay tax at their rate. With an S-Corporation, the profit just gets passed through to the owners. And the owners take out money in 2 ways. They can take a salary from the business, a salary that they get paid to manage the business and then any profit that's left over comes out of income. So on the slide you'll see the pie chart for the sole proprietor reporting net income on Schedule C pays self employment tax up to 15.3% on net profit. With the S-Corporation you're going to split income into salary and income. Look to the next slide.

Slide 16
Proprietorship vs. S-Corp

Ed: You'll see that you pay Social Security tax up to that same 15.3% on the amount you take in salary. Now to the next slide.

Slide 17
Proprietorship vs. S-Corp

Ed: Now you avoid any Social Security or self employment tax on the money that you take out as net income. So there's the concept right there. We're moving from a business entity where you pay self employment tax on all of the income to a business entity where you pay employment tax on part but not all of that income. And for many small business owners, that's going to be the single fastest way to reduce taxes.

Michael: Do you know why they call it S? What does the "S" stand for?

Ed: Because it's sub-chapter S of the Internal Revenue Code. Very clever. That's the same kind of rationale that gives us a 401(k) Plan named for Internal Revenue Code Section 401(k).

Michael: Got it; not very clever.

Slide 18
Proprietorship vs. LLC

Ed: Take a look at the next slide, "Proprietorship vs. LLC". The Limited Liability Company or LLC is becoming more and more popular these days. You can use a Limited Liability Company to lower self employment tax in the same way. You do it by dividing ownership between someone who is actively managing the business and someone who is not actively managing the business. Let's say I have a company I run myself and it's an LLC; I own 50% and my wife, Mary, owns 50%. I'm going to pay self employment tax on the 50% of the income that comes to me because I'm actively involved in managing the business. But if Mary is not actively involved in managing the business, if she's not personally liable for any business debt, and she spends less than 500 hours per year working in the business, we can treat her as a passive member and she won't pay the self employment tax on her income. So there are a couple of different ways to structure the business to lower the self employment burden, the S-Corporation and the Limited Liability Company. The ultimate decision is going to turn on what kind of business you're operating, who you might share ownership with, and things like that. It's not a formula that I can give here in this presentation.

Slide 19
Proprietorship vs. S-Corp

Ed: So let's take a look at the next slide, the "Proprietorship vs. the S-Corporation", and see exactly how much we can create in savings. We've got an example "before" earning $80,000 in Schedule C income and that person is going to pay $11,304 in self employment tax. In our "after" example we've got a $30,000 salary and a $50,000 income distribution. We'll talk in a little bit about how we make that split. Now the business owner's going to pay $4,590 in Social Security tax but he or she is going to save $6,714 in self employment tax that he or she doesn't pay on that income distribution. So we've cut that self employment tax by more than half.

Michael: That's pretty good.

Ed: It really is pretty impressive if you do it right and if you play by the rules.

Michael: That will pay for you getting it all set up, too, as a corporation.

Ed: That will more than pay for you getting it set up because you're going to save that money year after year after year as long as you operate the business.

Michael: Let me ask you something. I'm sure there's people thinking, oh it's going to be a pain in the butt setting up a corporation and super expensive.

Ed: It doesn't have to be. There are inexpensive services that will set up the corporations for you over the Internet. You can have an attorney locally do it for you. That's probably more expensive but they'll be able to walk you through the pros and cons of the corporation vs. the LLC and do all that analysis for you. The filing fee ranges from under $100 in some states to as high as $500 in a few states, but most of them are around $100. You ought to be able to get the whole thing established for roughly $1,000 or so.

Slide 20
S-Corp Requirements

Ed: There are going to be some requirements to operate it. And let's take a look at this next slide headlined, "S-Corp Requirements". First of all, you do have to pay yourself a reasonable salary for managing the business. It would be awfully easy to take zero salary, or $1,000 or $2,000 or $3,000 a year in salary. But of course the IRS is on to that. So they are on the lookout for corporations that don't pay the owner a reasonable salary.

Michael: Well, what is reasonable?

Ed: Reasonable is going to depend on the industry that you're operating in and the amount of work that you put into the business. I work with a lot of Real Estate Agents; according to the National Association of Realtors, the median net income is somewhere around $30,000; the average net income is somewhere around $40,000 a year. So I'm comfortable setting a salary somewhere in the $30-40,000 range. According to IRS statistics, the average S-Corporation owner takes out about 42% of their income in salary and 58% in income distribution. Now again that's going to vary depending on what the actual income of the business is. But some authorities will tell you that you can go down as low as 35, 30 or 25% of the business in salary.

Michael: Do they take into consideration, let's say it's a new business; most business don't even make money in the first couple of years.

Ed: Absolutely, most business don't make money in the first couple of years and I frequently see clients who don't start taking salary from the business until 2 or 3 or 4 years into the business when they're showing a profit. And of course if the business is showing a loss, there's no need to take a salary at all. So the key is that it be a reasonable salary. This is something that has to pass the smell test. Second bullet point; annual payroll. If you do take a salary, you do have to manage a payroll for yourself and that's a bookkeeping pain in the butt. But lots of small business owners manage their own payroll; others will hire a payroll service and it's generally a few hundred dollars a year to handle the paperwork and the withholding tax of managing a payroll. So don't let that discourage you from taking advantage of the tax savings opportunities with an S-Corporation. Third point, and this is a big one; incorporating your business as an S-Corporation or organizing it as an LLC taxed as a partnership really cuts your audit odds. For 2005, the overall audit rate for Schedule C businesses, sole proprietorships was well over 3%; higher than it's historically been, it's still a pretty low chance, 1 in 30 or so chance of being audited. But S-Corporations overall audit rate was 0.30%. LLCs taxed as partnerships filing Form 1065, their audit rate was about 0.33%. So organizing your business as an S-Corporation or an LLC can dramatically cut your odds of being audited.

Michael: That's a good tip.

Ed: A very good tip. Fourth point, it does have an effect on your Social Security benefits. If you're paying less money into the Social Security system, it just makes sense that you're going to take less money out. But let's talk about that. What kind of investment rate of return do you get on Social Security? Well, actuarially, the rate of return for men is about 2%; women live longer so for them it's about 3%. So if you think that you can invest on your own and get better than 2% if you're a man or 3% if you're a woman, it pays to lower the income that's subject to self employment tax and take the savings and reinvest it on your own. Plus if you don't make it to age 62 or 65 to collect Social Security, you get nothing, and even after you collect for 20 years, once you pass on so does the Social Security. If you're investing for your retirement in a side fund, that's going to be money that you can leave to your heirs and build your own family legacy. Finally we want to make sure to set up the entity as quickly as possible in the year that you want to do it. The S-Corporation and the S-Corporation tax election are not effective for income that you earn before the effective date. So if this is something that interests you, you want to find out about it now rather than later while there's still time to do something about it. Next slide.

Slide 21
#4: Missing Family Employment

Ed: "Missing Family Employment"; let's take a look at that because that's a big one. You may be in the 25, 30, 35% tax bracket if you're mom and dad but your children are going to be taxed at 0% on their first $5,350 of earned income. That's because that's the standard deduction for a single filer even if they can be claimed as a dependent on their parents return. A lot of business owners are missing the opportunity to shift income to their children to be taxed at the child's lower rate. I have 4 kids; Molly's 14, Mary Claire's 10, Margaret's 6, Oliver is almost 2. My oldest daughter goes to a Catholic High School with a $9,000 a year tuition. Now can I deduct that tuition from my taxes? Is there a line on Form 1040 where I can deduct private school tuition?

Michael: I don't know.

Ed: No, absolutely not. However, I can take advantage of the tax law to effectively write off that tuition and I can do it by hiring her to work for my business.

Slide 22
#4: Missing Family Employment

Ed: So let's take a look at the next slide, "#4: Missing Family Employment". The first bullet point, ages 7 plus. Yes, there is a minimum age requirement to hire your kids and it is age 7. This comes from an actual tax court decision out in your neck of the woods, the Eller Decision. Doctor Eller was a California doctor who hired his youngest son to work for his business when he was 7, 8 and 9. Apparently the kid removed sutures, did minor procedures, he came in on weekends and did billing, that sort of stuff. Now actually Doctor Eller owned a trailer park and the kids did maintenance and grounds work for the mobile home park. And the tax court ruled that it was reasonable for Doctor Eller to pay his youngest son $5,200 over the 3 year period when he was ages 6, 7 and 8. And by the way, that 3 year period of 1972, 1973, and 1974. You can pay a child some pretty nice money. You have to pay them a reasonable wage for the service they perform. And a reasonable wage is what you would pay a commercial vendor for the same service with an adjustment made for the child's age and experience. So if you've got a 10 year old who's mowing lawns at a rental property, you can pay him what a landscaping service would charge. Maybe you had a teenage daughter who's keeping books for you. You can pay her what a bookkeeping service might charge minus a couple of bucks an hour. Maybe you have a teenager who's managing a web site for your business. You can pay them what a commercial web site designer would charge and that might be $50, $60, $80 an hour depending on where you are. So the concept is hire your child. Now instead of being taxed at your rate, the income gets taxed at the child's rate. So I can pay my 14 year old daughter to work for my business and deduct it at my tax level, my tax bracket; it gets taxed at her bracket. Let's talk about how you substantiate it. This is important. You must have some kind of a written job description or template employment form showing what kind of work they're doing; you should keep a time sheet or other record of the work that they do for you; you should pay by check, that's important; it establishes a paper trail to show that the money goes from you to them and it should be deposited in an account in the child's name. You're not just paying the child and putting the money back into the household account to use for groceries. Now, the money goes into an account in the child's name but it doesn't have to be their fun money. It could be a Roth IRA or deductible IRA for retirement savings. It could be a Section 529 account for college savings. It could even be a custodial account where you control the assets as Custodian until the child reaches age 21. So I pay my 14 year old to work for my business, write a check from my business and deduct it at my tax bracket, it goes into my daughter's custodial account, gets taxed at her tax bracket, and then as Custodian I write a check to her private school for the tuition. And I have effectively deducted that part of the tuition that I pay through hiring her to work for my business.

Michael: Give me an idea of what kind of taxes she would pay if she would have to file a return.

Ed: Well, if she does not earn more than $5,350 she doesn't have to file a return. If it's more than $5,350 she'll file a return, she'll pay zero tax on that first $5,350 in 2007 because that's your standard deduction. She'll then pay 10% of anything above that.

Michael: Up until what?

Ed: For the next $7,000 or so. Beyond that it's going to be 15%.

Michael: Okay, so you can go $12,000 and she's only going to pay . . .

Ed: She's only going to pay about $700 in tax.

Michael: That's a good deal.

Ed: That's a heck of a good deal. Not only that, maybe she's going to learn not to think of me as the First National Bank of Dad.

Michael: That's right; she can pay for her own stuff.

Ed: Absolutely; kids can pay for a lot of their own stuff. And it doesn't have to be school tuition. You can use money in a custodial account for anything other than your obligations of parental support. So no, you can't pay the mortgage or the grocery bill with it, but sleep away summer camp is not an obligation of parental support; soccer leagues, ballet lessons, my 10 year old's Irish dancing lessons are not obligations of parental support. So by hiring the children to work for the business, seeing that those dollars are taxed at their level, I am effectively deducting whatever they pay for with the money that I pay them.

Michael: I've got a 7 year old so I get with my accountant and if he agrees to do some work for me, I get with my accountant and he becomes an employee of the corporation?

Ed: Either he becomes an employee of the corporation or of your unincorporated business. It's easiest if you're non-incorporated. When you hire your minor child under age 18, it's not considered employment for purposes of Social Security.

Michael: What if I'm incorporated?

Ed: If you're incorporated, there may be reasons why you would want to peel off some of your income into a sole proprietorship or an LLC. Otherwise, you can treat your child as an independent contractor and if they are not regularly engaged in the trade or business for which you're hiring them, then they will not owe employment taxes on that income. At that point it is truly tax free.

Michael: So I can hire him as an independent contractor even though I'm a corporation.

Ed: Even though you're a corporation; that's exactly right.

Michael: And then only if he earns over the $5,000 mark, he does a return. Okay, got it; that's easy.

Ed: Right; very powerful strategy.

Slide 23
Education Assistance Plan

Ed: Let's talk about another benefit that you can create for your children. That's the next slide and it's titled "Education Assistance Plan". Many of the people listening to this presentation may work for a company or have worked for a company that offers a tuition reimbursement plan. This is just a nice tax free benefit. The employer can pay the employee up to $5,250 per year to reimburse them for the cost of undergraduate or graduate education. Well, you can set up that same plan for your own business; you don't even have to be a corporation. There's a catch and there's a loophole. The catch is, you can't use money from the education assistance plan for a member of your own family. The loophole is, once your child turns age 21 or grandchild goes to college at any age, and you no longer claim them as a dependent, they're not considered a member of your family for purposes of this rule. So once a child reaches age 21, once the grandchild reaches college, you can pay them to work for your business and instead of paying them cash, you can reimburse their tuition or pay that tuition directly. So you may have a 21 old daughter working for your business; she's going to school part time or full time while she works for you; the business writes a check for $5,250 directly to school. The business deducts that check as an employee benefit but your daughter never even reports it as income.

Michael: Would she have to be an employee of the corporation and could you do that with an independent contractor?

Ed: She would have to be an employee. But if you're paying her in the form of benefits only, you're not going to issue her a W2 or a 1099, so there's no reporting on her taxes at all.

Michael: Okay, so that's up to $5,250 . . . a year? And that has nothing to do with the previous slide.

Ed: That's correct; that can be in addition to the cash wage.

Michael: At what age can this start?

Ed: It can start for your children age 21; if it's a grandchild, somebody who is not your dependent child, it can start at any age.

Michael: Any age for any grandchild.

Ed: Right, for undergrad or graduate tuition. So it is college; it's not high school.

Michael: Okay, so in my case I've got some time to worry about it.

Ed: If your oldest is 7, yes you do.

Slide 24
#5: Missing MERP

Ed: Now let's talk about a big one, a slam dunk for a lot of self employed people and that is missing medical benefits, specifically the next slide, "#5, Missing MERP", which stands for Medical Expense Reimbursement Plan. We talked a little earlier about how, if you're paying for your own health insurance if you're self employed, you can write off your health insurance as an adjustment to income on Page 1 of Form 1040. You can deduct your out of pocket expenses if you itemize deductions and if they're more than 7 ½% of your adjusted gross income. Well, for most of us that's not the case. We just don't spend that much on health care. So what if there was a way that you could shift all of those health care expenses to your business and write them off as a business deduction? There is and it's called a medical expense reimbursement plan. It's particularly good for an independent sole proprietor with no employees. Now this is an employee benefit plan. It means that you have to set up for someone who qualifies as a common law employee. If you're a sole proprietor or a partner in a partnership or an S-Corporation shareholder, you're considered self employed; you're not an employee. So if you're married the easiest way to do it is to hire your spouse. If you're not married you can do this if you operate your business as a C-Corporation but in the most common example, a married sole proprietor will hire their spouse. Now you do not have to pay your spouse a salary. You can pay them in the form of benefits only, specifically the medical expense reimbursement.

Michael: Let's say I'm a sole proprietor and I hire my spouse to do work for me. Can I hire her as an independent contractor?

Ed: No, you want to treat her as an employee; you don't want to treat her as a contractor. However, you don't have to pay her a cash wage.

Michael: I got you, but how would I get her set up as an employee?

Ed: Just with a written employment contract. We'll talk about the documents that you need to do that. So you're going to hire her to work for your business. Now here's how you're going to compensate her. You're going to reimburse her for all medical expenses that she incurs for herself, her spouse, which brings it back to you, and her dependents, which includes your children. So now you're reimbursing her for all medical expenses that you pay on behalf of the entire family. Now this works with any kind of insurance coverage; this is not an insurance plan. You don't have to set up a special arrangement. It's simply something that rides on top of your existing insurance. So if you're buying your own insurance individually, you can use your own individual policy. Even if your spouse works somewhere else and you have coverage through your spouse's employer, you can use the medical expense reimbursement plan to cover any un-reimbursed.

Michael: Alright, let me ask you this. So let's say my wife works for a company and her employment covers the entire family's medical expenses. How do you figure out what I would pay her?

Ed: Well, her medical coverage probably doesn't cover all of your family health care bills. There's going to be co-pays.

Michael: Yes, there are co-pays.

Ed: There's going to be prescriptions. So what you're going to do is you're going to reimburse all of those expenses that the insurance doesn't pick up. And that's how you're going to compensate her. Let's take a look at the next slide simply headlined "MERP".

Slide 25
MERP

Ed: Let's see exactly what you can cover. All kinds of insurance; that includes your major medical, long term care, Medicare premiums, and medigap supplemental insurance. It includes all your co-pays, deductibles and prescriptions. It includes all your dental, vision and chiropractic expenses. It includes big ticket items like braces for your kid's teeth, Lasik for your eyes, fertility treatments, special schools for learning disabled children. It covers non-prescription medications and supplies like aspirin or cream to rub on a sore elbow. Even, and this is my favorite tax deduction, voodoo animal sacrifice, which is a legitimate deduction. The tax court has said that you can deduct Christian Science practitioner fees and Navaho Indian Medicine Man rituals as medical expenses. So under the same logic, your voodoo animal sacrifice is a deductible medical expense as long as it's part of a religious ceremony for healing purposes.

Michael: That's hilarious.

Ed: Now if anyone out there actually wants to use the voodoo animal sacrifice, I really don't want to hear about it. It's just a great example of how tortured and twisted the tax code can get. But what we're doing is we're taking all of those expenses, which for most of us are after tax dollars, and now we're moving them to the pre-tax side of the ledger. And Mike, here's the best part. This is money that we're spending whether we get a tax deduction for it or not. I'm wearing glasses right now. I'm going to pay for the glasses whether I get a tax deduction for them or not. I'm simply taking the cost of those glasses and moving them from the after tax side of my ledger to the pre tax side of my ledger. Let's take a look at the next slide, also headlined "MERP".

Slide 26
MERP

Ed: We'll talk about the requirements. It does require a written plan document and I generally use an employment contract when a husband hires a wife or a wife hires a husband to outline their duties. There's no pre-funding required; you're not setting up an account and putting money into it like a flexible spending account where you put money in every paycheck and use it or lose it by the end of the year. It's not like a health savings account where you have to put money in the account and let it sit there until you need it. You as the employer can reimburse your employee or you can pay the provider directly. So the employee can keep track of all the expenses they pay out of their own pocket, come to you monthly or quarterly with those expenses, or you can pay the provider directly out of the business accounts. Either way you do want to make sure that the payments come out of the business account whether you're reimbursing your employee or paying the provider. Now you're going to deduct those payments as employee benefits. Let's say you hire your wife to work for you; you'll deduct the payments as employee benefits but she's not going to report any income. That's where we create the tax savings. And that does 2 things for us. First it avoids that 7 ½% floor on the itemized deductions that we talked about. Now 100% of your medical bills are deductible. And if you're a sole proprietor and you're paying self employment tax on your income, not only do you avoid income tax on the medical expenses, you also avoid self employment tax on those medical benefits.

Michael: So because I'm paying it directly as an employee benefit, she doesn't have to claim it as income. So she doesn't even have to file anything.

Ed: No, she doesn't have to file anything for that income.

Michael: We could set this up and she doesn't even have to work for the company to earn income.

Ed: She doesn't have to get paid a salary from the company. She does have to work and if the IRS audits you for this plan, they're going to want to see evidence. They're going to want to see a time sheet or something like that showing what she did for the business.

Michael: So she'll earn some income just depending on how much.

Ed: She doesn't have to earn a salary at all. She can work for you in exchange for those benefits. That way there's no cash payment; you don't have to manage a payroll for her; she doesn't have to add any cash income to the return.

Michael: So you outline that in the written plan document? How specific do you have to be in that?

Ed: The template document that I use for an employment contract specifies that the hiring spouse will pay such salary and benefits as they from time to time agree. In most cases, we just specify that they are paid a medical reimbursement allowance up to X dollars.

Michael: Okay, that's fascinating.

Ed: It's as simple as that.

Michael: I know we may talk about this later, but you've got sample documents like this, right?

Ed: Absolutely, turnkey documents, fill in the blank, it's all done for you.

Slide 27
Health Savings Account

Ed: Let's take a look at the next slide on "Health Savings Accounts". The medical expense reimbursement plan is great in the sole proprietor hire your spouse setting. If you have a lot of employees you may not want to use it because you do have to include other employees, you can't just have the spouse. And if you're an S-Corporation, there are some funky benefit rules for S-Corporations that make it impossible for you or your spouse to get benefits from the medical expense reimbursement plan from the S-Corporation. That may be another case where you'd want to set up a sole proprietorship. Let's say for example you're a Real Estate Agent and you earn income from buyers and from sellers. You may want to segregate the income from your buyers into a proprietorship so that you can hire a child and do the medical expense reimbursement plan through your spouse while you keep the bulk of your income through the S-Corporation to lower the self employment tax. So there may be very valid reasons to split your income between 2 different entities. But in some cases, the medical expense reimbursement plan just doesn't work. If you're not married and you can't operate a business as a C-Corporation, the medical expense reimbursement plan won't work for you. In that case, your next best strategy is the new health savings accounts and this is a way to lower the overall cost of your health care. It's actually a 2-part process; the first part is a high deductible health plan and that means a deductible of $1100 or more for individual coverage, $2200 or more for family coverage, and you pair that with a deductible health savings account. Let's say you have $2200 deductible for family coverage, you're buying coverage for yourself, your wife and your children; you've got a $2200 deductible. Now you're going to set up a health savings account and you can put $2200 per year into that savings account. You're going to deduct the money that goes into the savings account and you're going to take it out tax free for qualified medical expenses. So it's not as flexible as the medical expense reimbursement plan because you have to put money into the account first and there are limits on how much you can put into the account but it's a way to deduct most if not all of your out-of-pocket expenses through that health savings account.

Michael: And this is either/or. You can't do both.

Ed: You can do either/or. The way the high deductible health plan rules work it's difficult to set up a 105 plan and make the HSA contributions. But here's the advantage; the high deductible health plans are a lot less expensive than the traditional first dollar coverage where you have a low deductible. So what a lot of people will do is they will buy a high deductible health plan to get the lower premiums and then instead of funding the HSA account, they'll set up the medical expense reimbursement plan and they'll use that to cover the out-of-pocket expenses. And with the HSA account, that's something that you'll want to discuss with your health insurance agent. Again it's not something where I can give an easy formula for picking which is going to work best for you. My point is that most accountants aren't going to show you either of these strategies.

Michael: Why not?

Ed: I don't know. Did your accountant let you know that you could write off your voodoo animal sacrifice?

Michael: Not at all, and he just doesn't know.

Ed: He just doesn't know and I can understand that. The MERP rules are new. That's only been in the tax code since 1954. The IRS issued a private letter ruling specifically authorizing a sole proprietor to hire their spouse in 1994.

Michael: Well, it's like anything. 80% of anyone in any profession is only doing 20%. You know, most people aren't very good at what they do.

Ed: They're not and most people get in a rut. That's why it's so helpful to have somebody take a second look, a comprehensive second look at your tax situation, at your financial situation, and see what the first person may be missing. And that doesn't necessarily mean that the first person is bad. But we all get stale, we all get into a rut and sometimes a fresh pair of eyes is just what the doctor ordered.

Michael: Now you're dealing with accountants and financial planners for many years. How do you think they would react if I asked them to watch this presentation and anything you see and hear that can save me money, I want you to implement on my tax return. Do you think they'd be excited or what a pain in the butt? What do you think?

Ed: They may not be excited. They may think it's a pain in the butt. They shouldn't be threatened by it and I have accountants and financial planners attend my presentations all the time. They always tell me they learned something new. And most of us want to learn something new. If you come to me with a strategy that can save you money, I'll be happy to save you money but then what I'm going to do is I'm going to say who else can I show this to and be a hero to with this new strategy that somebody else isn't presenting to them? And if your accountant or financial advisor is threatened by that, that's not a good sign.

Michael: Do you have a list of accountants or bookkeepers who understand these write-offs and who are using them currently in their practice that you could refer my listeners from www.hardtofindseminars.com to?

Ed: Mike, sure I do. I have a couple of resources that I work with including a network of 350 tax and financial professionals across the country that are using these strategies. At the end of this presentation we'll talk about my tax relief system; it includes a personal consultation and if you choose to take advantage of that offer, in that consultation I can direct you to either a national firm that works with clients across the country or somebody in your local area if we have a qualified person there.

Slide 28
#6: Missing a Home Office

Ed: Let’s go to the slide, number 6, “Missing a Home Office”. This is a huge one and it’s a huge myth. If I’m in front of 100 people in an audience I’m going to say how many of you have heard your accountant say don’t take the home office deduction; it’s a red flag? Hands are going to go up. I’m going to say did your accountant tell you that you can’t deduct the home office if you don’t meet clients there. And hands are going to go up. And I’ll ask did your accountant tell you that you lose money when you sell the house in extra taxes if you take a home office. And hands are going to go up. And it’s become a big myth. There are 2 main requirements to qualify for a home office. It has to be your principle place of business. That means it’s a space that you use exclusively and regularly (exclusively means exclusively and regularly means 8-10 hours a week or more) for administrative or management activities of your trade or business. That’s the first requirement. The second requirement is you have no other fixed location where you conduct substantial administrative or management activities. I have a lot of clients who are Real Estate Agents, for example, or Insurance Agents. They might say I have a desk at the agency; I can’t take a home office. Well, no; if you use that space at home exclusively and regularly for administrative or management activities, keeping your books basically, and you don’t conduct substantial administrative or management activities at the agency, you have a qualifying home office. Now where does that language come from? Look at the bottom of the slide. It comes right out IRS Publication 587.

Michael: And these are the only main requirements?

Ed: These are the only 2 requirements. Now you can also qualify for a home office if it’s a separate structure, detached from your residence or if you use it regularly to meet with clients or customers in the ordinary course of the trade or business. But for most of us, this is what’s going to qualify us; the principle place of business. Let’s take a look at the next slide.

Slide 29
Home Office

Ed: For most of us, we're going to start by determining the business use percentage of the home and that's going to be square footage. So in the example on the slide, we've got a 1500 square foot house and a 144 square foot office. Take 144, divide by 1500, 9.6% of the house is deductible home office space. But take a look at the next slide.

Slide 30
Home Office

Ed: You can eliminate what the IRS calls common areas. If you're going to lease commercial space, for example, you're not going to pay for hallways, elevators, common bathrooms, stairways, things like that. So you can eliminate those common areas from your calculation.

Michael: What would be a common area in a house?

Ed: It would be a hallway, a bathroom, a closet, something that's not part of the core living space. So now maybe we've got 100 square feet of common space in the house. Now we're dividing 144 by 1400 square feet; now 10.3% of the house is deductible instead of 9.5%. We bump up that deduction a little bit.

Michael: How about a garage?

Ed: The garage isn't going to be considered finished space. However, if you use part of a garage for your business, to store samples or marketing materials or something like that, you can include that in the home office space.

Michael: What if you use your whole garage as your office?

Ed: If you use your whole garage as your office, I would go ahead and include that whole space in the calculation.

Slide 31
Home Office

Ed: Alright, let's take a look at the next slide. It tells us what we're actually going to deduct. First we're going to deduct the business use percentage of the home expenses. So the business use percentage of the mortgage and the property taxes, now they're going to come off Schedule C or the business return. That's better than itemizing those deductions by the way, because if your income is over $150,000 your itemized deductions start phasing out, you lose part of that mortgage interest and if you're subject to alternative minimum tax, you lose the deduction of the property tax entirely. Now we rescue part of that missing mortgage interest and all of that missing property tax for the business return. You're going to write off the business use percentage of your utilities, your security system, your housekeeping expenses; you're going to write off the office furniture and décor in the space that you use. You're going to depreciate part of the house that represents the home office over 39 years, non residential real estate, and a couple of benefits that most accountants don't think of with the home office. First is what I call the footie pajama commute, and I've got my 3 daughters (14, 10 and 6 so footie pajamas are a bigger part of my life than most people's); when it comes to calculating your mileage, your car and truck deduction, you've got 3 kinds of miles. There are business miles which are deductible; personal miles which are not deductible; and commuting miles which are not deductible. Ordinarily your first trip of the day from home to a business location, that's your outbound commute. Your last trip of the day from a business location home, that's your inbound commute. Well, if your office is the front room of the house, then your commute is the footie pajama commute from the master bedroom to the office. So it does give you extra car and truck expense deductions.

Slide 32
Home Office

Ed: Next, when you sell, you are going to recapture depreciation that you've taken on the space in the home. So if you've depreciated a few hundred dollars a year for that office, when you sell you're going to recapture it and it's going to be taxable and you're going to pay tax, a maximum of 25% on it. However, you keep the tax free exclusion. This is another big myth with accountants. Oh, don't take a home office because if you take 10% of the house as an office, when you sell you don't get the full $250,000 or $500,000 deduction that you would ordinarily get. Now you have to pay capital gains taxes on that 10%. Well the fact is, that's not true. The IRS clarified in 2004 that you would not be taxed on the business use portion of the home unless it's a separate detached structure. So no tax penalty when you sell the house.

Michael: That's great.

Ed: That is great. Next bullet point here, "S-Corp and LLC Advantages"; one of the reasons that people are afraid to take the home office, and one of the reasons that accountants are afraid to take the home office is, you've got to file a special form, 8829 that tells the IRS you're taking home office expenses. And the Form 8829 goes with the Schedule C. Well, if you've incorporated as an S-Corporation or an LLC, there is no Form 8829. You simply take the deduction for the value of the space as a business deduction on the S-Corporation or LLC return and you fly under the IRS radar. They don't even know you're taking a home office unless you get audited. And remember the audit rates for those tax forms are about 10% of the audit rate for a Schedule C. So you're flying under the radar.

Slide 33
OPEAF

Ed: And finally, next slide, "OPEAF". And if you're wondering what that stands for, On Premises Employee Athletic Facility. I talked about it in the second or third slide. Code Section 132(j)(4) says you can deduct the cost of an on premises athletic facility and that is any gym or any other athletic facility which is located on the premises of the employer which is operated by the employer and substantially all the use of which is by the employees of the employer, their spouses and their dependent children. So you have a home based business, right? To qualify for this deduction, you have hired your wife or your children to work for that business. Now since it's a home based business, your house is the premises of the employer. You have the swimming pool which you operate yourself; it doesn't mean that you can't hire a pool boy. And all the use of which is by the employees of the employer, meaning your wife or your children who work for your company. And you qualify to write off your swimming pool as an on premises employee athletic facility.

Michael: Let's say it costs $30,000; can you write the whole thing off at one time?

Ed: No, you're not going to write off the cost of installing it. First of all, the cost has to be reasonable with regard to the value of the service the employees provide. So for most of my clients, we may write off the maintenance costs or we may depreciate the cost of the facility as a land improvement over 15 years. Unfortunately you're not going to be able to pay $30 or $40,000 to have a swimming pool installed and deduct it that year as a business expense. We do want to be reasonable but it's a nice benefit to write off the cost of opening and closing the pool and maintaining the water and all of the various other expenses. But it's a great example of taking advantage of proactive opportunities and black letter law. You can read the slide right here and see what Code Section 132(j)(4) says. Yet I'll bet that very few of our listeners have heard this from their accountant.

Michael: That's probably true.

Slide 34
#7: Missing Auto Expenses

Ed: Let's move on to "#7: Missing Auto Expenses". You've got 2 ways that you can write off the cost of your car or truck that you use in your business. There's the mileage allowance which right now is 48 ½ cents a mile plus the business use percentage of any interest you pay on a car loan, which is something that a lot of accountants miss. Or you can take the actual expenses and that's going to be the business use percentage of your depreciation in any interest you pay on a loan if you bought the car. It will be the business use percentage of your lease payments if you lease the car; business use percentage of your gas, your maintenance and repairs, insurance, car washes, car phones, satellite radio. A lot of people tell me, oh my accountant said just take the mileage allowance because it's easier. A lot of people will say my accountant told me to take the mileage allowance because it all works out the same in the end. Well, that's not really true.

Slide 35
Auto Expenses

Ed: Let's take a look at the next slide, "Auto Expenses". AAA does a driving cost survey every year which tells us what the cost of actually operating a vehicle is. And for 2006, the mileage allowance was 44 ½ cents a mile. But operating a small Sedan actually costs 42 cents a mile (41.7 cents a mile); think of the Honda Civic. A medium Sedan, 53.1 cents a mile; think of the Ford Taurus. We're already almost 8 cents higher than the mileage allowance. A large Sedan, 61.9 cents a mile; think of Buick Park

Avenue. Four wheel drive SUV, 65.4 cents a mile; mini van 59.2 cents a mile. Those figures assume you drive 15,000 miles a year and get this, gas at $2.40 a gallon. So you can see pretty easily that for most vehicles, the actual cost of operating them is far higher than the mileage allowance. Now it's going to depend on how many miles you drive a year for business and whether you buy the vehicle new, lease the vehicle new, buy it or lease it used. But the point is, be sure you run the numbers both ways because when the accountant says take the mileage allowance; it's easier. Yes, it may be easier but it may be costing you a lot. And when they say take the mileage allowance because it all works out the same in the end, that's simply not true. And I see clients losing thousands of dollars a year in deductions just because they make this one mistake.

Slide 36
Track Mileage

Ed: Take a look at the next slide under "Tracking Mileage". Don't be scared that you have to track every mile you drive for business every day all year long. That's what I call the brute force method. And you only have to do that if you have more than one vehicle that you use for business. If you have just one vehicle you use for business during the year, you can use the 3 month method where you take a typical 3 month period, record your beginning mileage and your ending mileage, record your business mileage between, and that will give you a percentage that you can use for the entire year. There's something called the first week method where you can take the business mileage the first week of every month. Frankly I think that makes no sense at all because who wants to remember whether they're on or off for a week. And then finally there's what's called the simplified method; if most of your driving is for business, it will be easier to take a 3 month period and just track your personal mileage during that period because you'll have less mileage that you'll have to record. Because less of your mileage is personal. So you don't necessarily have to track every mile you drive every day all year long. But as I said, I see people losing $2,000, $3,000, $4,000 a year in deductions simply by taking the wrong mileage method.

Michael: Let me ask you this question a little bit off the subject; for a corporation or a business, you've probably come across this. Is it better for a company to lease their car and write off the lease payments or to buy outright? And I know there may be some depending on, but do you have any opinion on that?

Ed: Michael, that's a great question and I get it a lot. And the answer is, it depends on the financial planning considerations. I tell my clients in virtually every situation, make the right financial planning decisions first; then let me find the most tax efficient way to do it. Buying a vehicle lets you take depreciation deductions but there are specific dollar limits on those depreciation deductions every year. If the vehicle is not a heavy truck, if it's just a regular passenger car, you've got a $3,000 limit the first year, $5,000 limit the second year, and limits that go down every year after that. Whereas if you've an expensive lease, you're simply going to take the business use percentage of that lease payment. So let's say it's January 1st and I want to get a 4-door Sedan. Even if I use it 100% for business, the most I can depreciate is $3,000 in the first year. So if my payment is $600 a month, I'm paying $7,200 a year; I get a $3,000 depreciation deduction. If I lease that car, let's say I'm only paying $400 a month but I use it 100% for business, now I'm going to be able to write off all 100% of that $400 a month, or $4,800 a year. So leasing will match your deduction to your cash flow a little better but depending on the lease terms versus the purchase terms, it may or may not be a better financial planning decision. It's a common question and it's a great question.

Slide 37
#8: Missing Meals/Entertainment

Ed: Let's move on then to "#8: Missing Meals and Entertainment". And this is a big one because most people don't realize how much they spend on meals and entertainment when they operate a business. The IRS knows you've got to eat but you can claim a deduction for a meal or entertainment where you have a bonafide business discussion. So you and I go out to lunch, we talk about ways that I can use your systems for expanding my business; that's a bonafide business discussion. That's going to be a deductible occasion. The IRS knows we've got to eat so we can't write off everything but if I treat you to lunch, I'm going to be able to write off 50% of those expenses. That's the core concept. Now let's talk about the details. First of all, you do have to track your expenses; you don't need receipts for expenses under $75. That's a big one; however you do have to record 5 pieces of information and they are when you eat, where you eat, how much you spend, our business relationship (am I a client, am I a prospect, am I a vendor?) and finally the business purpose of the discussion. And for most of us those can go in a Franklin Planner or Microsoft Outlook or our PDA, wherever we keep our appointment book.

Michael: Or on your credit card statement you can make a note.

Ed: Your credit card statement will show how much you paid and yes, you can write that on the back of the credit card statement and simply take that as a receipt. You can do that as well. But no receipt is necessary for expenses under $75.

Slide 38
Meals/Entertainment

Ed: Now let's take a look at the next slide, "Associated Entertainment". We can also write off the cost of associated entertainment if it's immediately before or after a bonafide business discussion. So you're in San Diego; if I come to San Diego and you take me to see the Chargers, you can write off 50% of the tickets, the parking, the beer and hot dogs at the game, all the various expenses there. Second bullet point; this is one that a lot of people miss. Home entertainment; do you ever have people over to the house for dinner or for a weekend barbecue? Do you ever talk business? Do you ever have a bonafide business discussion with those people? Are you writing off the cost of that home entertainment? No yet, is the right answer. Because those expenses are deductible just the same as going out to a restaurant. So if you have business associates over to the house for a barbecue on a Saturday afternoon, you can write off the same costs for the meal and entertainment that you would if it was out at a restaurant under the same rules even; no receipts necessary for expenses under $75.

Michael: It's true; people's minds are set on just going out but you still have expenses at home.

Ed: You still have expenses at home, absolutely. It may even be family or personal friends. I have a lot of clients who are Real Estate Agents who've sold a house to their parents or a brother or sister or a child. And if they have that family member over to the house, well they're constantly marketing themselves, right? They're going to be talking about real estate and their business. So they can write off the cost of that family dinner as long as there is a bonafide business discussion to qualify for the deduction.

Michael: That's great; thank you for that.

Ed: People miss it all the time. And by the way, when I ask the question are you writing it off, the answer is not "no"; the answer is "not yet". Or "now I am". As a matter of fact, you may want to consider amending tax returns that you've already filed to take advantage of some of these strategies if you've missed a lot of these expenses.

Michael: How far back can you amend?

Ed: You can amend back 3 years. There are some specialized strategies involving depreciation of commercial properties, investment properties, where you can go back as far as 1986, but for most of us, for most small business owners, we can go back 3 years.

Michael: So what you're telling me is I could look at all these new tax saving strategies; go back 3 years for my last 3 year tax returns and apply them and amend the returns.

Ed: Amend the returns and get a check back from the government. I've amended returns and gotten back refunds as high as $22,000.

Michael: That's incredible. Financial planners or accountants, how often are they amending returns? Is that pretty rare?

Ed: Not often enough really is the answer there. There are a lot of tax professionals who will market themselves by reviewing old returns and finding ways to amend those returns. As a matter of fact, the packet we've packaged and I'm going to be discussing at the end of this presentation does include a 2 year review of your returns to see if there's anything that you can do to go back and get money.

Michael: Wow! Now that's powerful.

Ed: That is very powerful stuff. And the reactions I get from seminar audiences is either, boy this is great or boy why didn't my accountant tell me I could do that? Unfortunately, I get a lot of accountants fired.

Michael: Hey, that's great; that's valuable information right there.

Ed: Here's a strategy I want to close with that I guarantee you have not heard from your accountant. You can rent your house for up to 14 days per year tax free taking income and as long as you don't rent the house for more than 14 days, that's tax free income to you. Well, if you have entertainment at the home, if you have a big barbecue over the summer for clients, if you have a big Christmas party for clients; rather than go to a local country club or a local restaurant and rent space, you can actually rent your home to your business for that occasion. You want to come up with a commercially reasonable rent value; the business writes a check from the business account to you, the owner of the property; the business deducts that amount as rent for the entertainment, and since you rent the house for less than 14 days per year, you don't report it as income. You are taking money and creating a deduction where none existed at no real out of pocket cost to you.

Michael: How do you figure the price?

Ed: For example, if you have a big back yard with a swimming pool, you might find out what it would cost to rent a local swim club for 2 or 3 hours or a banquet room at a local hotel. It's got to be commercially reasonable so unless you're living like a Rockefeller, it's probably not $3,000 or $4,000 a day. And I doubt that anyone listening to this presentation heard that strategy from their accountant. Unless perhaps they're working with one of my network of 350 across the country.

Slide 39
Cadillac Savings

Michael: Alright, what's this next slide with the Cadillac?

Ed: Well, how many of you want to buy the government a Cadillac? My client, Eric Hendricks, was nice enough to tell me in 2 years my strategies for minimizing the self employment tax on his dealer properties, maximizing depreciation deductions on his rental properties, and writing off his family's medical bills as real estate expenses, saved enough to pay for his wife's new Cadillac Escalade. And the fact is, if you're not taking advantage of these strategies, you may not be buying the government an Escalade, you may not be buying them a Cadillac every 2 years, but if you're not taking advantage of these strategies sooner or later you're going to buy the government a Cadillac.

Slide 40

Case Studies of Ed's Clients

Michael: Can you tell me a couple case studies of how regular people like our listeners have used your system to save money, specific examples?

Ed: Sure, I have an appointment later this evening with a long time tax preparation client of mine who operates a plumbing business outside Cincinnati. His income is about $25,000 a year. He's going to save $2,000 this year from the strategies in instant tax relief. I work with Real Estate Agents across the country. I recall an Agent I worked with in Southern California who attended one of my seminars; we had a consultation and by restructuring their business entity and their retirement plan, he and his son are going to save $25,000 a year between them. I have another client I met at a seminar in Pittsburgh, a real estate investor who realized that his accountant wasn't taking advantage of some depreciation strategies we discussed; I amended his return and got him back a refund check for $22,000. That actually included $1,400 in interest from the IRS. So these are real life strategies that work for real life clients. So the question is, how can you stop the bleeding?

Slide 41
Ed's Tax Relief System

Ed: If you're like me, I listen to a seminar like this and I forget half of it by the end of the day and the rest by the end of the week. If you want real savings, you need a permanent resource. And that's why I've created my tax relief system. It starts with a 3-ring binder with 115 single page modules. Each module covers a specific deduction, credit, loophole or strategy. It's all footnoted and sourced to the Internal Revenue Code, Treasury Regulations, Tax Court Decisions. You're welcome to share it with your accountant. They're not going to find anything that's out of bounds. And whether they admit it or not, they're going to learn a thing or two. It also includes tool kit pages with the actual tools you need to implement these strategies. So we talked about an employment contract and a written plan document for the medical expense reimbursement plan. These are each one page fill-in-the-blank documents. We talked about the education assistance plan; it's a one page fill-in-the-blanks document. We talked about hiring your children. The hire your children kit gives you all the paperwork you need to make it legitimate. Again, footnoted and sourced; share it with your accountant. The manual's great as far as information is concerned but most people like to have a pair of eyes over their shoulders. Taxes aren't intuitive. So I include a personal consultation with the system. I'd like to review your last couple of years' tax returns and there's a 3 page questionnaire to fill out. You can fax them or mail them to my office. We set up the time and then spend an hour on the phone going over your taxes and your circumstances. This is my chance to customize the system to you for your business and it's your chance to ask any specific questions you may have. Accountants can actually license this system for themselves to use with their own clients; it's that valid a system. It's all court tested and IRS approved. It's just a matter of doing it. And it's so easy to do; guaranteed savings.

Michael: So you have accountants all over the country using this.

Ed: We have over 350 accountants and financial planners as of this date using the system across the country. I suspect that once this interview gets out, there will be more.

Slide 42
Special Offer to HardToFindSeminars.com Listeners

Michael: What can you offer exclusively for my www.hardtofindseminars.com listeners? Do you have any kind of bonus that you could really sweeten the pie for students from www.hardtofindseminars.com if they order this?

Ed: They're getting 2 things that aren't available from the Internet. I want to make a special offer for Michael Senoff's www.hardtofindseminars.com listeners. The retail price for Instant Tax Relief is $497; that's tax deductible of course, so Uncle Sam and your state Governor are going to meet you halfway. But I'm going to lower that price to $297. Second, I'm going to throw in something called the Corporation Tool Box; this is published by the Tax Club, a national accounting firm that specializes in working with small business owners. They'll give you a corporation consultation, a tax consultation, a bookkeeping consultation and a corporate recordkeeping consultation. They'll walk you through the process of setting up your corporation or LLC and it will cost just your state filing fee. They'll also introduce you to some other services they have to offer; registered agent services, bookkeeping, payroll services, things like that. But this is the quickest, easiest, least expensive way to get your entity set up and I think it's important enough that if you order from this special seminar, I'll throw the Corporation Toolkit in for free.

Michael: Ed, what's the guarantee on this product?

Ed: The product comes with a lifetime guarantee. If you use it, you'll save at least 10 times your purchase price or I'll refund your money. If you just don't like it, send it back and I'll refund your money. I generally charge $300 and hour but I'll tell you I don't like hourly billing because it doesn't really reflect the value. I had one 3-hour consultation where we found the strategy to save the taxpayer a million dollars of income tax in a single year. So the value isn't what I charge as an hourly fee; the value is the taxes you save year after year after year with the system.

Michael: Ed, this has been awesome. This interview, this presentation has got to be one of the most valuable presentations on my web site at www.hardtofindseminars.com. A lot of my recordings and interviews are about how to make money but these are hands down, no holds bar, put money in your pocket, money in the bank strategies that will absolutely save me money.

Ed: Well, thank you. I appreciate that. I've worked very hard to create a seminar that is 88 minutes of content and 2 minutes of sales pitch. And that way when I finally do get to the 2 minute commercial at the end I've established my credibility, unlike a lot of people who are primarily sales pitch or primarily theory.

Michael: Look, you've given so much value just on the slide presentation and the Question & Answer interview we did previously. For those people who think that they could get it all from these 2 presentations, is there stuff in your package that we haven't covered here in these slides?

Ed: There is more stuff than we could discuss in a day. For real estate investors, there's information on buying, selling and depreciating property that can save thousands or hundreds of thousands. For anyone who operates a business, there are more strategies for employee benefits, for structuring retirement plans, things that we haven't even touched on yet that, again can save thousands of dollars a year for as long as you operate the business. And save 6 figure and 7 figure amounts when you actually sell that business. And this to me is the fun part. Tax planning is so much more than just filling out government forms. It's being a detective, taking a microscope to your income and expenses and seeing how you can make your financial planning decisions in the most tax effective way. And for me there's nothing more fun than telling somebody that I can save them a ton of money.

Michael: So why are you giving so much away? I hear it all the time. I mean, you're giving so much value away for so little, what's in it for you?

Ed: Well, I'm hoping they introduce people to my network of accountants and financial planners. I'm hoping to create goodwill by saving them a lot of money.

Michael: Well stated. There's nothing I can say because you've demonstrated savings through this presentation. It's absolutely obvious and unequivocal that if you just do it and implement these savings, it will 10, 20, 30 times pay for itself. The only reason someone wouldn't do it is because they don't want to do it themselves. And that's why I keep bringing back, take this presentation, buy the system, and give it to your accountant. Pay your accountant to implement this for you.

Ed: Accountants can actually license this system for themselves to use with their own clients. It's that valid a system.

Michael: Ed, it's been a pleasure. I really, really appreciate your time. This has been a fascinating presentation and I urge anyone listening to this to take advantage of this very generous offer that you've offered my listeners. I really thank you.

Ed: Michael, thank you. I've enjoyed it myself. To give the system a try, go to the last slide in the power point presentation; you'll find the link that takes you directly to the sales letter; it outlines all of the strategies, concepts, deductions, credits and loopholes that the system discusses; gives you full details on everything that's included and leads to a sales page.

Slide 43
Take Advantage of This Special Offer

Michael: I've convinced Ed to give you, the listener or viewer from www.hardtofindseminars.com a very special offer. To get Ed's Tax Relief System a try, I want you to email me at michael@michaelsenoff.com, and in the subject line of your email type out in all capital letters TAX RELIEF and I'll send you in an email directly to Ed's special offer. But you must hurry. This offer is limited and Ed may call off the whole deal at any time. If you'd like to contact us by phone, call (858) 274-7851. And if you're still not sure and you have not listened to the one hour question and answer interview where Ed fielded questions from my students at www.hardtofindseminars.com on personal situations on how they can save money on their taxes, go to the top of this presentation viewer; you'll see a section that says attachments and click on that and you will see a link to this question and answer interview presentation. This will give you even more information on how to save money on your taxes and hopefully push you over the edge to convince you to give Ed's system a try. Thanks for listening. If you do not hear back from my by e-mail call me at 858-274-7851 and I'll send you over to Ed personally. You request may have ended up on my spam folder.