

WEALTH FACTORY PRESENTS...

---

# THE ULTIMATE 2020 TAX SAVINGS GUIDE:

---

5 BIG MOVES

TO KEEP MORE MONEY AND  
USE THE NEW TAX CODE  
TO YOUR ADVANTAGE

COPYRIGHT © WEALTH FACTORY. ALL RIGHTS RESERVED



# **The Ultimate 2020 Tax Savings Guide:**

5 Big Moves To Keep More Money and  
Use The Tax Code To Your Advantage

Whenever you're planning ahead – whether for the next month, quarter, or year – we all have the same goal:

**Keep more money.**

For most people, that means working harder or making more sales.

Or trying to save money by cutting expenses with that ineffective strategy most people hate... budgeting.

Well, here at Wealth Factory, we're here to tell you that there's another option:

Use the tax system to your advantage.

That's right... regardless of what you may think, the tax system was designed to *help you*.

That's why this guide exists. To show you how to pocket more of your hard-earned money by understanding and applying the rules for your benefit.

Here at Wealth Factory, we're all for paying our fair share of taxes. We just don't think it's necessary to leave a tip.

So we help our top clients find and implement quick tax-saving strategies while they're building a solid, comprehensive, and permanent tax-reduction strategy.

In this guide, we're going to show you 5 "big moves" you can make today to significantly decrease your tax burden this year... all while playing by the rules 100%, and without increasing your chances of an audit.

When you see the tax game the way we do and play by the rules of the wealthy, you'll be able to keep more of your money, without hustling for more sales or arguing with your partner about expenses.

Enjoy this complimentary guide, and feel free to bring it to your accountant so that you can apply these "big moves" to your life and business immediately.

Build the life you love,  
The Builders at Wealth Factory

# **BIG MOVE #1: Use Incorporation Structures to Your Advantage**

The single best way to maximize tax savings is to incorporate.

When you incorporate, you not only separate your business from your personal finances for more legal protection, you also open up a whole new set of tax saving strategies that puts immediate money back in your pocket.

That's because the tax system was designed to incentivize business owners. Simply put, they drive the economy forward, which is what the government wants.

Many small business owners, however, file as self-employed individuals using Schedule C. This is simple but prevents you from using some of the best tax strategies. Plus, if you make over \$500k, using Schedule C can increase your likelihood of audit from 1% to 16%.

That's why...

***Our single biggest tax tip will always be to incorporate with the proper business structure.***

If you're a professional working with clients, that could mean starting an LLC and electing to be taxed as an S Corp. As you'll see in the following pages, there are several big tax advantages to owning your own small business.

Even if you're an employee, you may be able to restructure your position as an independent contractor to take advantage of the tax savings. Always discuss this with a competent CPA first since there is a right way and a wrong way to do this.

If you already have a business that's taxed as a sole-proprietor (Schedule C), then consider evaluating the best structure using the simple guide below:

## **What is the best corporate structure?**

**LLC** is the easiest, especially with a partner. If you are a single-person entity, the IRS will consider your LLC a "disregarded entity" and tax you as a sole proprietor unless you elect to be taxed as an S-Corp. It is simple to do and usually only requires submitting one extra signed document to the IRS.

**S Corp** is great with a cash cow business, where it's just you and you want to take as much money out with the least amount of taxation. You can differentiate your income between salary (fully taxable) and dividends (avoids self-employment tax). In most cases, this is our top recommendation.

**C Corp** is meant for bigger companies, where you have different shares, you may be raising funds, or plan on selling or retaining certain earnings. With a corporate structure, you're able significantly improve or reduce your legal liability.

### **What about Partnerships?**

Partnerships are attractive to many small business owners (and their accountants) because of the simplicity of accounting. The problem is that they don't offer any real tax advantages. However, if you want to go into a partnership with someone else, here is a way to combine legal entities to your advantage.

Let's say John and Mary are going into business together. Each one forms their own single-member LLC and elects to be taxed as an S-Corp. Then they form a partnership for the business they are doing together, but the owning partners are their LLCs, not them personally. That keeps the partnership accounting easy and simple, and allows their individual LLCs to utilize all the tax advantages possible. Be sure to talk to your business attorney or tax team before combining structures this way.

In summary, using the proper corporate and tax structures

1. Provides asset protection vs the unlimited exposure of a sole proprietor
2. Lowers IRS audit rate compared to Sole Proprietorship/Schedule C
3. Gives you additional tax strategies so you keep more of your money

# **BIG MOVE #2: Make Financial Organization Effortless**

## **Tip #1 - Avoid Overpaying on Taxes and Make Audits Easier With a Good Bookkeeper**

Did you know that bad bookkeeping is one of the top 3 causes for business owners overpaying on taxes?

It's true, so don't overlook this easy fix. Get a bookkeeper. Doing so will help your CPA avoid missing things.

There are additional benefits to good bookkeeping such as:

- Reduces your tax preparation bill
- Streamlines a tax audit when it occurs
- Helps your tax professional find new tax-saving strategies
- Avoids local and federal reporting requirement violations
- Detects financial fraud within your business (if you have employees)
- Frees up your time to work on activities that grow your business.

If you're a small business, any bookkeeper is better than none, and with a simple Google search, you can find someone certified in Quickbooks for about \$100/mth.

They're a critical team member that will save you headaches and taxes, and help you grow your business faster. More on how to build a coordinated financial team in "Big Move #5"...

## **Tip #2 - Schedule Quarterly Meetings With Your CPA to Avoid Owing at the End of the Year**

If you're like most business owners, then sometime around the beginning of December you start to panic a bit.

## ***Are my books in order?***

### ***Was I smart with my expense write-offs this year?***

### ***Will I have a big tax bill in the spring and should I save more now?***

However, there's an easy fix you can implement right now:

#### **Schedule quarterly meetings with your CPA.**

You can even automate the process so you don't have to think about it.

Simply open up your calendar right now (we like Google Calendar or iCalendar) and create events on March 31, June 30, September 31, and sometime in the first week of December. Label them "CALL CPA - OPTIMIZE TAXES".

This simple reminder system will make it easy for you to proactively plan your tax strategy and save as much as possible this year.

Not to mention the extra sleep you'll get knowing that your taxes are organized and optimized!

Things to talk about on your quarterly calls:

- Quick review of current strategies you're using
- Any major changes in income or expenses
- New tax strategies that may apply
- Adjustments to your estimated tax payments to avoid an unbalanced return

A good CPA will appreciate your communication and dedication to a solid tax strategy, and may even find additional savings as you get to know each other better. It's a win-win, and something we highly recommend taking action on now.

## **Tip #3 - Use a Tax Journal or Expense App For Full Visibility**

Our final tip for making financial organization effortless this year is to use a tax journal or expense apps like [Mint.com](https://www.mint.com) or [Quickbooks Online](https://www.quickbooks.com) to keep track of your expenses in real time throughout the year.

***As you go, make a short note on the receipt  
and in the journal to justify each expense.***

Adopting this simple discipline will not only help you capture more tax breaks, it will help you breeze through an audit if it comes.

You see, small business owners tend to spend first, and document later. This leads them to forget significant deductible expenses like mileage where they may have no record at all of the purchase. Or, they think they can't take a deduction because they cannot find a receipt or paid bill. However, Treasury Regulation §1.274-5 says that documentary evidence is not required for transportation, entertainment, gift or travel expenses (other than lodging) when the expense is less than \$75.

Having a written log or other cloud-based records can prevent you from overpaying your taxes and can easily put hundreds or even thousands of dollars back in your pocket.

*\*\*\* Note: When you have a simple, organized system like this, along with a coordinated financial team, tax audits are a breeze (and certainly not to be feared).*

*Your team will be able to communicate directly with the auditor and show the proof and reasoning behind your deductions, making it a relatively easy process for you. This is yet another reason to commit to making this year your "best tax year" ever.*



# **BIG MOVE #3: Strategize Like a Big Business, Simplify Like a Startup**

## **Tip #1 - Separate Out Your Salary vs Dividend Activities (Payroll vs Owner Distribution)**

Paying yourself properly is one of the simplest strategies to immediately and permanently lower your tax burden.

This specific strategy is for S-Corp business owners (or LLC business owners who have an “S Corp structure”). This is the most common type of small business, and what we recommend for most people.

When you’re an S Corp, you can pay out “dividends” (also known as “S-Corp distributions”), in addition to your salary. This simple strategy, when executed correctly, can allow you to save thousands per year.

### **Here’s How it Works**

If your business is set up as an S-Corp, you can pay yourself either as an “employee” (W-2 income) or as a shareholder (i.e. “dividends” or “distributions”).

The IRS requires that you pay yourself a salary as an employee if you perform employee-like activity in your business. This pay must be “generally commensurate with your duties.”

You can think of this as working “in” your business.

You can also make distributions to yourself appropriate to your role in the S corporation as an owner/investor/shareholder. This is what we refer to as “working on your business.”

The advantage is that you don’t have to pay FICA or self-employment tax on those distributions — only income tax (as it is passed through to you as an individual).

In the right circumstances, this can save small business owners thousands of dollars each year in reduced taxes.

### **Key Details...**

You have to be careful, though. Tax courts have held that you can’t pay yourself with 100% owner distributions.

The key is to combine distributions and wages. Most people get into trouble because they just pick a number out of thin air which could easily be challenged in an audit.

We suggest you keep track of the time you work "in" your business (e.g. servicing clients) versus the time you work "on" your business (e.g. strategic growth planning) for a period of one month. Use this as a guide to differentiate your income on a percentage basis. You can also use salary tables for your profession in your geographical region to give you a good point of reference.

Excellent strategies and solid record-keeping like this are part of a comprehensive tax strategy that not only lowers your taxes automatically but also makes passing an audit a breeze.

Consult with your business or tax attorney (or any other qualified member of your financial team) to see if you are set up as an S-Corp. Although it is the structure we most generally recommend, everyone's circumstances are different, and your chosen business structure should be part of your overall Wealth Strategy.

If your business structure allows you to take some of your compensation as an owner distribution, consider using this technique to lower your tax burden this year.

## Tip #2 - Get a 2nd CPA Opinion Every 3 Years

Every three years, we suggest you get a "second opinion" from someone other than your current CPA.

Because no matter how good they are, they will tend to have their own "favorite" strategies and may be missing other things. There's no need to replace your current CPA.

Just pay for one session with a new CPA where you go over the past three years' tax returns. Then amend your returns wherever you find deductions you missed, wherever you overpaid.

The IRS allows you to amend tax returns up to 3 years in the past. Using this technique, our Accredited Network CPAs have helped our clients recover up to \$100,000 or more in past taxes that they overpaid. When our founder Garrett Gunderson first used this technique, he got a \$54,000 refund from the IRS, even though he had a good CPA.

Even if you don't find any big tax savings, the 2nd opinion can give you peace of mind that your accountant and your tax strategies are working for your benefit, so it's definitely worth the expense.

***KEY POINT: When you save money on taxes, you save it at your highest tax rate, so the most impactful dollars go straight to the bottom line and back into your pocket as spendable cash.***

# Big Move #4: Take Advantage of Big-Impact Deductions

## Tip #1 - Deduct Your Health Insurance

Let's say John is the owner of ABC Inc. and pays for his insurance out of his personal bank account. When he files his personal tax return he reports the expense under Medical Deductions on Schedule A: Itemized Deductions.

His premiums are \$9,000 a year. Since John reported it under medical deductions he must meet the 10% deductible. In this case, that deductible amount is \$10,000, so that means John loses out on a potential \$9,000 expense.

So how do we recover his lost \$9,000 deduction?

***John needs to either have his S Corp pay the premiums directly to the insurance company or reimburse him if he continues to pay them personally.***

Then at year-end, John must add the premiums to his W-2 as income that is not subject to Social Security taxes. Lastly, John deducts the \$9,000 as an adjustment to income on the self-employed insurance deduction line 29.

So what just happened?

First, John's S Corp deducted the insurance premiums, resulting in a **\$9,000 savings**.

Next, income was added to John's W-2 and then deducted that amount as self-employment insurance.

In the process, he avoided itemized deductions entirely and the \$9,000 got washed away on the first page of his individual tax return.

## Tip #2 - Rent Your Home To Your S-Corp and Get Tax-Free Income

Your S Corp is a separate entity from you and can have meetings wherever it likes—including at your home.

The tax code allows you to rent your home for up to 14 days each year without having to report the income.

This means that you're able to have the meeting at your house and charge your company for the rental of your home. This is personal, tax-free income to you (while your company gets to deduct the expense).

Does that sound too good to be true? It's perfectly legal when you follow the rules. But of course, there are conditions.

One, you can't provide "entertainment" at your meeting. That would color your home as an entertainment facility and kill this strategy. But there are two exceptions. You can have an employee summer picnic and/or a holiday party that involves entertaining; those are allowed exceptions.

### **Here's an example of how this can work.**

Betty owns Betty's Real Estate, Inc. and operates as an S Corp. She has a team of 20 agents. Each year Betty holds ten monthly all-day training sessions for her agents.

She has researched competitive bids for these meetings and determined \$1,500 is a fair and reasonable expense in her area.

Betty can invoice her company a total of \$15,000 for the year and that income is tax-free to her since she is renting her home for 14 days or less.

And her corporation can deduct the \$15,000 as well. In effect, Betty spends company money she would have spent anyway... except now she and not a third-party venue receives the income.

And you can too—as long as you meet IRS guidelines.

First, you need to be able to document that the rent you charge is fair and reasonable for your area.

Next is the "entertainment problem," which you can address by making sure your event is strictly a training exercise.

Document the business activities that took place, maintain a sign-in sheet, and keep copies of your training materials. Finally, have your corporation issue a 1099 for rents paid to you; you will then report the 1099 amount on your personal income taxes on Schedule E, showing a deduction under other expenses for non-taxable income.

## Tip #3 - Shift Income from Higher Brackets to Lower Ones By Hiring Your Kids

Shift income from higher tax brackets to lower ones.

The easiest way to do this is to hire your kids. You can hire your children to do legitimate work and pay them a salary.

How does this help?

It takes income out of your higher tax bracket and shifts it into their lower tax bracket, while still keeping the money in the family. In fact, you can pay each child just over \$6k per year totally tax-free.

This can be money you then put into a college fund, or you can have them buy their own clothes, pay for their own vacations, etc.

There are rules to follow, so if you have kids and would like to use this strategy, be sure to request our free guide on Hiring Your Kids and/or talk to your CPA.

# Big Move #5: Build a Coordinated Financial Team

## Tip #1 - Start With The Basics

Having a basic coordinated team is the surest way to reduce your taxes, reduce your risk, and live the life you love.

What exactly does having a “coordinated team” mean?

It means that the key financial players working with you communicate with each other so that you have an integrated strategy.

For instance, your CPA communicates with your Registered Investment Advisor, and together they give you a great strategy to lower taxes by investing in the right places.

Most people don't have this. In fact, many people may not even be able to get their bookkeeper and CPA to work together efficiently!

The best way for you to maximize your investments and minimize your taxes is to have all of your team members working together for your benefit.

So who are these key players? Well, at minimum you should have:

- Lawyer
- CPA
- Insurance specialist
- Registered investment advisor

You may benefit from other team members too. And remember, ideally this team is willing to work together for your benefit.

## Tip #2 - As You Grow, Build a Comprehensive Team

Here at Wealth Factory, this is our specialty. We're a comprehensive personal financial education and implementation program for entrepreneurs, health care professionals, and small business owners.

Professionals (like dentists, orthodontists, optometrists, and veterinarians) and entrepreneurs typically focus on what they do best, and that's running a great practice and providing state-of-the-art service.

Managing their personal finances often takes a back seat, and this can create tremendous personal and professional stress. And as their business grows, so might the complexity of their finances. So providing a proven, comprehensive solution is well-received by this group of professionals.

***Wealth Factory fills that gap and provides an integrated team approach that brings together asset protection attorneys, accountants, retirement planners, investment advisor, insurance experts, estate planners, and cash flow specialists.***

This is very similar to the kind of integrated services provided by a boutique family services firm for high net worth individuals, but without the high price tag (or the \$50M net worth qualifier).

Advice and implementation happen in a custom-tailored sequence, facilitated by a financial quarterback so you do not have to waste time.

## **There are three core components of our flagship program:**

### **1. Blueprint Implementation and Accountability**

Our financial team customizes and facilitates each step of assembly and implementation.

### **2. The critical components include:**

- Cash Flow
- Taxes
- Estate Planning
- Insurances
- Investments



In the beginning, that might look like finding hidden fees in your finances and investments, optimizing loan structures, identifying duplicate insurance coverages, or finding that you are overpaying on taxes.

There are more components for unique situations, but these are the core foundational pieces we teach. The remaining pieces are offered on a customized basis as your individual needs dictate. This is because every small business is different, and the needs of every professional and entrepreneur are unique.

### **3. Financial Clarity and Legacy through Investor DNA**

Wealth Factory provides diagnostics to help clients identify their own unique Investor DNA based on personal strengths and interests. This approach simplifies all their business and investing decisions in an objective way, fully aligned with their life objectives.

This financial clarity frees up the client to excel in every area of their personal and professional life and provides the clear vision to create a lasting legacy.

Unlike traditional financial plans that only focus on what you have stored away in other people's business (like stocks and bonds), we help you identify how your own business can become an integral part of your wealth plan.

***Since we're entrepreneurs too, we understand the specific and unique needs of business owners and professional service providers.***

Traditional financial plans generally focus on retirement planning alone. They ask you to give them your money for 30 years and hope for the best.

This "traditional" approach to personal finance goes completely against all the good principles of money management you use to run your business.

So if your current financial planner doesn't understand your business, he can't possibly understand you or your unique financial needs. Using the tools we give you, you'll discover painless steps to take back control of your money and your wealth plan using your biggest asset – YOU and your business.

This is the only method we've discovered that puts entrepreneurs like you in complete control of your financial plan. It leverages what you know best to preserve your wealth and help avoid painful investment losses.

We absolutely are not suggesting that everyone who invests in the stock market loses money. We are suggesting that investing in areas you're most educated in may yield you a higher return.

Our goal is to help you explore those possibilities so that you can make financial decisions from a place of strength and knowledge. And if other people in your life play an important role in your finances, whether that be your significant other or your CPA, you will have their backing because you can make decisions together as an informed unit.

As busy entrepreneurs ourselves, we're mindful of the hectic pace of life that comes with owning your own business. That's why our trainings avoid overly technical economic theory or confusing financial terminology. Instead, we explain everything in full detail, without jargon, using simple direct language that gets to the point quickly to save you time and money.

If you want to **build sustainable wealth, increase your monthly cash flow and enjoy economic independence** *without using budgets, cutbacks, limiting your lifestyle or adding new customers to your business...*

Wealth Factory can help provide the tools, the team, and training you need to build the life you love.

Our mission is to help 1 million entrepreneurs reach Economic Independence by 2020.

We do this by helping small business owners build their own personalized Wealth Architecture.

If working with our team sounds like something that could help you get more financial clarity, you can [see if we're a good fit for you here](#).

**Build the life you love,  
The Builders at Wealth Factory**