REAL ESTATE

THE GUIDE TO BUILDING AND GETTING

SHORTCUTS

PROPERTIES THAT WORK FOR YOU

YOU CAN BANK ON TODAY

WRITTEN BY

US TAX LIENS

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Real Estate Tax Lien Shortcuts You Can Bank On Today

INTRODUCTION:

This immediately-useful guide is designed to speed up your profit potential when investing in tax liens. You learned in our free workshop how to;

Invest in the RIGHT PLACES - so you get the best bang for your buck while retaining the hands-on ability to manage all the way to a tax lien sale if need be.

Tap the TAX SALE info - so you know all the ins-and-outs about a specific area's rules and regulations.

Evaluate PRIME PROPERTIES - so you know exactly what you are investing and your potential return, while managing down risks.

GET READY to invest - so you have everything in place the minute the property goes up for the tax sale.

Make the WINNING BID - so you lock up high-return properties to add to your profit portfolio.

In the following pages you will find out;

1 How to lay your hands-on hard money to invest

2 How to protect your assets

3 Tips for leveraging the tax code

4 Sure-fire strategies to multiply your returns

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Asset Lending or Hard Money

The purpose of this chapter is to introduce you to one of the most lucrative and least understood aspects of real estate investing: Private Mortgage Lending (PML). The Private Mortgage Lending business is also referred to as Hard Money Lending and Hard Equity Lending. This industry will allow you to:

- Create monthly cash flow
- Create a consistent return of at least 16%
- Eliminate virtually all risk
- Make double-digit returns using none of your own money
- Build a full-time income with just a few hours of work a week
- Build a big business with very little marketing dollars

Private Mortgage Lending: A Vital Service

Although there are some cash buyers out there, most real estate investors rely upon either debt financing or equity financing in order to purchase property. Of the two financing options, debt financing is the more common. Either a conforming lender and/or a non-conforming lender can provide debt financing.

Conforming lenders, for the most part, consist of banks, mortgage companies, and finance companies. These lenders make their lending decisions based upon the credit worthiness of the borrower. They consider credit scores and credit history, debt-to-income ratios, debt-to-asset ratios, financial statements and more, in order to make a lending decision. All of these considerations examine the borrower's credibility as well as what the cost of funds (interest rates etc.) will be should they be accepted as a borrower. This whole process takes time.

Conforming lenders tend to shy away from lending to investors unless the investor has some money in the deal. In other words, the conforming lenders would like to see a down payment or at least cash reserves. In addition,

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these lenders typically do not lend money to purchase properties that require renovation. The thought process is that if the bank has to take a property back through a foreclosure action, it doesn't want to have to then put even more money into renovating it in order to sell it on the open market.

So conforming lenders require time and down payments, and they don't like to lend to investors for rehab-type properties. That is basically the exact opposite of what real estate investors are looking for! Investors want to move fast, buy with very little or no money down, and they love to buy properties to which they can quickly add value through renovations and improvements.

Non-conforming lenders fill this void!

Non-conforming lenders include private mortgage lenders who offer hard money, seller financing or any other loan that doesn't have to conform to the secondary markets (Fannie Mae, Freddie Mac, and Ginnie Mae) or SEC (Securities Exchange Commission) guidelines.

Private Mortgage Lenders provide a very necessary service to real estate investors, especially those who specialize in "rehab" properties. PMLs are able to provide loans to investors, quickly and easily, as the lending decision is usually based upon the underlying asset and not the borrower's credit score or other traditional lending criteria.

The individual PML decides whether they require a credit score, loan application, or other documentation. The secondary market does not dictate the decision to them. In other words, they don't care what Fannie Mae guidelines are - they are not using Fannie, Freddie or Ginnie! PMLs can make a loan decision in a matter of hours or days and then be able to close immediately. Real estate investors don't have to wait a month or more to close. They can get proof of funds in a matter of a few days or less and be ready to close a few days after that!

Because PMLs make their loan decisions based on the underlying asset, they can lend up to 100% financing. Some PMLs will even factor renovation costs into the

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loan, which means an investor can get better than 100% financing. The thought process here is that if the borrower defaults, the PML will take the property back and sell or rent it themselves. If the borrower defaults before the property is renovated, the PML will do just that – or they will contact someone in their database to see if they want to take over the deal and the payments (they can assume the loan with the PMLs permission).

So, using a PML takes very little time. In addition, they don't require a down payment, and they love to lend to investors!

Other Considerations

Although getting a loan with a conforming lender takes longer, requires a down payment, and they tend to shy away from rehab investors, they do offer:

Lower points and fees

Lower interest rates

A longer payback period

Getting a loan with a PML is much quicker, they don't require a down payment, and they are willing to take risks on rehab investment property loans, so they command:

Higher points and fees

Higher interest rates

A shorter payback

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Private Mortgage Lending: The Profit

PMLs make profit on points and interest rates, both of which are calculated into the Annual Percentage Rate. In addition, PMLs can charge administration fees for things like copies and other office expenses, which are not included in the APR.

Lenders must limit their APR to under the state usury law in which it was originated. In addition to state usury laws, the rates you may charge will be based upon supply and demand in your area. Across the nation I have seen points ranging from one to eight, and interest rates ranging from 12-18%.

So as a PML, you can expect to make at least a secured 16% return on your investment!

I challenge you to find another business that provides monthly cash flow, requires no management, demands so little time, and yet provides a secured rate of return like that.

Rule of 72

More than likely, you are already familiar with the rule of 72. But in case you are not, the rule of 72 is a quick mathematical formula that calculates the number of years it will take to double your money based upon the interest rate that you make. The calculation is simple: divide 72 by the interest rate you are making.

For example, if you average a 6% return in the stock market, it would take you approximately 12 years to double your money (72/6=12).

If you averaged 16% as a PML, your money would double every 4.5 years!

At 20%, every 3.6 years!

Private Mortgage Lending: The Risk entrepreneur

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You may be wondering, “Why should I lend money to an investor when a bank wouldn’t?” “Aren’t I taking a lot of risk?” “What requirements or qualifications do I need?” These are good questions, all of which will be answered below.

Why should I lend money to an investor when a bank wouldn’t?

First of all, just because an investor is going to a PML doesn’t mean that he or she can’t qualify for a bank loan. Remember, banks often turn away good borrowers simply because the property needs renovations.

A PML doesn’t have to lend money to anyone he or she doesn’t want to lend to - you call your own shots – you are the bank. Certainly, one doesn’t want to be reckless in who they lend to though, and there are several factors
that should be considered such as:

- Credit score
- Credit history
- Financial statement
- Investment experience
- Quality of the real estate deal
- Estimated profit margin
- Loan-to-value ratio
- What you are left with if you have to foreclose or take the property back

It is a good practice to run the credit score of your potential borrowers. Use a credit pulling service that will provide you with both a FICO score and a credit history. You can set up accounts with Experian, TransUnion and Equifax.

FICO scores are between 300 and 850: 300 being very, very bad and 850 being the very best. For most lenders, a score of 650 is considered to be “good” credit score. You, as a PML, can set your own minimal acceptable score.

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The FICO score can tell you a lot, however a more conservative lender might review the credit history as well. The credit history will reveal the type of debt the potential borrower has. A PML would prefer to see more real estate debt versus revolving credit card debt.

A good financial statement will show the client's income statement and balance sheet. A widely used form – for both conforming lenders and PMLs - is the Fannie Mae 1003 form. You can get form 1003 from the Internet, any mortgage broker, bank, or other traditional lender.

The investor's experience should also be considered by a PML. New investors, obviously, pose more of a lending risk than experienced investors. Having said that, a PML should always consider the quality of the deal. If they have a great deal with a healthy profit margin, the borrowers experience and credit should be less of a deciding factor.

Your other risk consideration tools are really more about you than the borrower. You must consider the maximum loan-to-value ratio you set for your business loan decisions and your evaluation of the worst-case scenario. The worst-case scenario would be that you'd have to take the property back by foreclosure or some other legal action.

Taking a property back might not always be a bad thing. Most PMLs would rather have the payments, but sometimes a PML might actually make more money by taking a property back than they would have made if they had just received the payments. For example:

If you loaned $120,000 on a property with an after-repaired value of $200,000, and the borrower started the renovations but then couldn't pay the mortgage, you get the property back either through foreclosure or another legal action (a Land Trust is a great way to lend as there are no foreclosure costs and you get the property back immediately). You now get to keep the entire margin.

Aren't I taking a lot of risk?

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The risk you take is the risk you accept. Remember, you choose your own lending guidelines. There are several items that will help you control risk. PMLs control their risk using several things. The most common are:

- Their knowledge of property valuation
- Their knowledge of renovation costs
- Loan-to-value ratios
- Credit reports

The bottom line is that if a loan goes bad, the PML is usually able to find another real estate investor to assume the mortgage, or the property repairs can be completed by the PML and then the property can be sold or rented at market value.

What requirements or qualifications do I need?

To become a successful PML, you will need:

- A good understanding of general real estate transactions
- The ability to do simple bookkeeping
- To be easy to get in touch with
- A working knowledge of real estate values in the area that you choose to lend
- 3-4 hours per transaction
- Basic marketing skills
- Access to at least enough money to fund two transactions

More advanced strategies to make even more money

Although those interest rates are fantastic in any economy, there are more advanced strategies available to eliminate expenses and risks even more, while being able to increase your rate of return. These techniques include:

- Land Trusts
- Contract for Deed

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• Hypothecation
• Self directed IRAs and 401Ks

Imagine being able to do this business without the time or cost of having to foreclose! How about being able to borrow money against the loans you have made! How about making all that money tax-free!

Other advanced strategies allow you to raise all the money you need without using any of your own! They include, but are not limited to:

• Lines of Credit
• Private Placements
• Real Estate Investment Trusts

Looking for a way to do this without the experience? How about without any money? Then table funding may be the way to go.

Table Funding

You can become a Private Mortgage Lending Broker. The purpose of a PMLB is to bring real property investors together with PMLs. A fee is made at the transaction. It is similar to being a mortgage broker, but you are bringing together private lenders with private borrowers. It is very important NOT to call yourself a mortgage broker unless you are a licensed mortgage broker.

As a PMLB you:

• Market to potential and existing PMLs
• Screen and qualify loan candidates
• Prepare documents
• Attend or arrange closings
• Get wiring instructions
• Instruct all payments to go to the PML
• Get a check at the closing

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As a broker or facilitator, your profit center is the same as a PML - administration fees, points, and interest. You can keep the points and administration fee. You might keep the points, fees and a portion of the interest rate. It is completely determined between you and the PML. The most common arrangement is for the facilitator to get the points and fees.

Asset Protection Made Easy!

Establishing a Comprehensive Strategy to Safeguard Your Wealth!

Any book on the topic of getting rich ought to include a chapter on how wealth is protected. Unfortunately, many business coaches and trainers take the position that devising and implementing strategies for the preservation of wealth is something that should only be taught, much less considered, after one is well on their way to creating a sizable rich fortune. However, many rich individuals never take the time to safeguard their money until they come to realize that their assets are exposed. Oftentimes, it will be too late to devise such a plan.

The truth is that EVERYONE needs to be concerned about wealth preservation strategies, even those of us who are just starting to achieve our financial goals. With the proper strategies in place many headaches can be avoided before any home based entrepreneur makes their first million dollars.

So what, exactly, are the dangers to wealth? In this chapter, we’re not going to be discussing bank robbers or natural disasters. Instead we’ll focus on three specific threats to wealth that everyone needs to plan for:

Lawsuits

Income taxes

Estate taxes & probate

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Asset Protection

It has been estimated that every week there are over 75,000 new lawsuits filed, something that I like to refer to as the “lawsuit explosion.” Many people believe that as long as they conduct their personal and business affairs with caution, they will never need to worry about being sued. Unfortunately, this is not the case. Simply put, there is no way to prevent someone from suing you, not matter how frivolous their case may be. In actuality, the determination of whether or not the potential defendant has any identifiable and attachable assets determines whether a lawsuit is filed.

Essential Steps to Protecting Your Assets

Since we’ve got this type of landscape at work against us, it becomes imperative that we take the necessary steps to protect our assets. Protecting your assets depends upon the strength of how your “asset security system” is designed and installed. How do you do this? You put into place an asset protection strategy. The first step in doing this is to realize that it is more likely than not that you and/or your business will be sued. No matter how carefully and ethically you conduct yourself and your business it is still likely that you’re going to be sued. Once you recognize this, you can take steps to ensure that the lawsuit you face won’t be one that wipes out both your personal and business assets.

The second step of putting your asset protection strategy into place is to recruit and organize professionals who can help you accomplish this goal. Who are these people? Most likely, you’ll need an attorney and an accountant who are both skilled at asset protection structures and the methods for their successful implementation. Don’t worry, this should not be overly cost prohibitive. In fact, many successful entrepreneurs and investors consider this to be one of their best investments. Third, you need to prioritize your objectives. In most cases, how you implement an asset protection strategy has a high likelihood of affecting (either adversely or positively) your tax and estate planning. If this is the case, you have to look at your overall financial situation and decide how to best protect your

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assets in a way that doesn't materially alter your other financial planning objectives.

The third step in building your asset protection strategy is to measure your wealth. Is your cumulative wealth a golden egg or a turnip? How do you expect your wealth to change in the future? These considerations are essential in deciding the right asset protection strategy for you.

Fourth, you've got to put your plan into place. There are many different types of asset protection strategies, but most, if not all, of them involve the use of business entities. A business entity is a formal business structure that is created by filing formation paperwork with the Secretary of State. Business entities are "individuals" under the law and as such they are responsible for their own debts and obligations. In the United States, most businesses are either a sole proprietorship or a general partnership. Neither a sole proprietorship, nor a general partnership, is a business entity, and as such they should never be used to operate a business or conduct any sort of for-profit endeavor, because they provide zero asset protection benefits. In other words, if a sole proprietorship or general partnership is sued and the business does not have sufficient assets to pay a judgment, the owner or owners are personally liable for paying the debt and their personal assets can be seized.

Fifth, you have to be proactive. What does this mean? You can't put into place an asset protection system after you've been sued. Unfortunately, too many times people only think about how to protect their assets when it's too late.

Next, let's discuss corporations. A corporation is an entity with a legal existence that is separate and distinct from its owners (shareholders). Additionally, it is considered and treated as a separate "person" for tax purposes. A corporation is generally in existence perpetually until either affirmative action is taken to dissolve the corporation or until the corporation is dissolved by operation of law for failure to properly maintain its existence (i.e., by failing to file annual reports or take other statutorily required actions).

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When we talk about the asset protection benefits of a corporation, generally speaking, since a corporation is a legal "person" separate and distinct from its owners, any debts or liabilities of the corporation belong only to the corporation. Because of the asset protection afforded a corporation, it is a popular choice for businesses.

The next type of business entity we'll discuss is a limited liability company, or LLC. Like a corporation, an LLC is a "person" in the eyes of the law, and as such, the LLC is responsible for its own debts and obligations. In most states, the LLC has fewer rules regarding its formation and maintenance than do corporations, which makes LLCs popular with many businesses.

The third and final business entity we'll discuss is the limited partnership, or LP. Like a general partnership, a limited partnership has multiple owners, yet not all of the owners are responsible for the debts and obligations of the company. These partners are called "limited partners," and while they have no personal liability, they also do not have a voice in the operation of the company. By contrast, the management of the company is left up to one or more "general partners." However, the general partners CAN be held personally liable for any of the debts and obligations of the company, such as a lawsuit. However, selecting a corporation, rather than an individual, to serve as a general partner, can easily cure this exposure. LPs are especially popular for businesses that are established by an individual who needs to attract investors but does not want to run the risk of losing control of the company.

Before moving on from our discussion of business entities, we need to briefly discuss business insurance. Many home based entrepreneurs choose to protect themselves from lawsuits by purchasing insurance rather than establishing business entities. While insurance is always a good thing to have, it should never make up one's entire asset protection strategy for two reasons. First, a policy will typically only cover certain types of "events." Usually, in the case of damages that result from an intentional act or failure to act, or in the case of punitive damages, most policies won't pay you a dime. Secondly, every insurance policy has a limit. Even if a judgment is awarded against your business and your insurance company

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agrees to pay, it must only do so up to the policy limit. The entire amount of a judgment, which is in excess of the policy limit, will still be your responsibility.

Finally, the key to having a secure asset protection structure is to realize that it is a lifelong process. Whatever type of strategy you choose, you can't just put it into place and then sit back and relax forever. It's important to realize that circumstances change, both in your personal situation and in the law, and for these reasons you should always keep in mind that you may need to tweak your strategy as time goes on.

Tax Reduction Strategies

One of the greatest threats to an individual's hard-earned assets - and his ability to save money - is taxes. In fact, according to many estimates, Americans spend more money on taxes each year than on food, clothing, and housing combined. Despite this fact, most people fail to undertake any tax planning toward reducing their tax bill. Unfortunately, tax planning is something that most people think they either don't need or will never be able to understand. In truth, neither of these misconceptions is true. In this chapter, we will discuss the problems that taxes pose to individuals and how they prevent you from saving money.

Tax planning is the key to reducing or minimizing your income tax liability. What is tax planning? Tax planning means to avail oneself of the exemptions, deductions, credits, and other "loopholes" contained in the Internal Revenue Service Tax Code. Tax planning is a process, not an event, and therefore it must be continual. No matter how competent your tax advisor is, in most cases it is impossible to go back and "make it all better" after a transaction has occurred. In addition, there are several non-revocable elections that must be made by a certain date and once that date is passed, you cannot retroactively correct any mistakes or omissions. Accordingly, the time to educate oneself on the ways to reduce your personal tax bill and to implement your own tax planning is NOW!

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Before getting into the basics of tax planning, every reader needs to identify and understand the difference between tax planning and tax evasion. “Tax planning,” as we defined earlier, occurs when one takes advantage of the IRS Code to legally reduce his or her tax bill. By contrast, “tax evasion” occurs when an individual avoids paying taxes either by failing to file a tax return or by filing a fraudulent return. Make no mistake: Tax planning is legal. Tax evasion is illegal.

Are you overpaying your taxes?

The reason why taxes present the largest obstacle to one’s ability to save money is because most people overpay their tax bill. In this regard, it might not surprise you to know that the IRS is not going to call you after you’ve filed your return to tell you that you’ve paid them too much. Why do most people overpay when it comes to taxes? There are two reasons: Fear and a lack of knowledge.

First, let’s take a look at how fear causes most people to pay too much in taxes. When it comes to the IRS, we’ve all heard plenty of horror stories. As a result, many people are simply afraid to aggressively take advantage of the exemptions, deductions, credits, etc. in an attempt to lower their tax bill. Fortunately, the United States Supreme Court can alleviate those fears. In Gregory v. Helvering, 293 U.S. 465 (1935), the Court held that taxpayers have the right to use the Tax Code to lower the amount owed in Federal income taxes. Justice George Sutherland, writing for the majority, held:

The legal right of a taxpayer to decrease the amount of what otherwise would be his [or her] taxes, or altogether avoid them, by means which the law permits, cannot be doubted.

Accordingly, no one should be worried about taking advantage of the provisions of the Tax Code that can lower his or her tax bill.

Now let’s look at the second reason why most people overpay their tax bill, a lack of knowledge. It might not surprise you to know that the IRS Tax Code is one of the largest works ever written and, in my opinion, the most complicated and

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confusing. As a result, most laypeople have never taken the time to educate themselves on the many ways their tax bill can be reduced. Instead most laypeople rely upon the media and/or their CPA to explain to them how they can legally reduce their taxes. Still, the problem remains that many so-called "tax experts" are not fully indoctrinated in the Tax Code, and even when they are, their ability to explain the benefits of the Tax Code to ordinary laypeople in simple terms is lacking.

As we said earlier, the IRS is never going to help you lower your tax bill. And while there are tax professionals out there who can give you such help, they probably aren't going to take the time to help you understand all the ways in which you can reduce your annual tax burden. Even if they do, they will never be as motivated as you are to reduce what you pay in taxes. As a result, you need to learn on your own how you can reduce your tax burden. Fortunately, this chapter will explain the basics of the Tax Code and provide you with an introduction on how it can be used by everyone to lower the amount of their money that is lost to taxes every year.

Understanding Income

Any discussion on how to legally reduce one's tax burden through proper tax planning must begin with income. As you can imagine, there are many different types of income according to the Tax Code, and each type of income is taxed in a different way. There are seven different types of income. Starting with the least taxed income and going to the greatest, these seven income types are as follows:

1. Tax free income: Income with no tax is better than the alternative.

2. Deferred income: This is the same thing as an interest free loan. It's difficult to pass up free money.

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3. Long term capital gains: LTCG are taxed at lower rates and are not subject to FICA and Medicare taxes. They are also not taxed until the investment is sold.

4. Rents and Royalties: These are taxed at regular income tax rates and not subject to FICA and Medicare taxes. However, expenses can be deducted from these to reach the taxable amount.

5. Short term capital gains: STCG are taxes at ordinary income rates and are not subject to FICA and Medicare taxes. They are more attractive than interest and dividends because the option is there to hold them for a long term period of time.

6. Interest and Dividends: These are taxed at regular income tax rates and not subject to FICA and Medicare taxes.

7. Earned Income: Taxed at regular income tax rates and subject to FICA and Medicare taxes.

The second step to lowering one's income taxes is to understand how taxes are withheld from your employer. If you've ever received a paycheck, then you know that when you work and receive that paycheck, your employer holds taxes out of your check. While everyone knows that taxes are held out, my guess is that you probably don't know exactly what types of taxes are held out and at what rates. If you analyze the taxes that come out of each of your paychecks, you will generally see four types:

1) Federal Income Tax Withholdings

2) Social Security Withholdings

3) Medicare Withholdings

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4) State Income Tax Withholdings

First, let's look at Federal income taxes. These taxes are withheld from an employee's paycheck based upon how he or she filled out the W-4 form given to them when they were first hired. Currently Federal individual tax rates range from zero percent all the way up to 39.6 percent! The factors considered by the IRS in calculating your tax rate include, but are not limited to, your marital status, number of dependents, and itemized deductions (mortgage interest, state and local taxes, charitable contributions, etc.).

The second type of withholding tax is the Medicare tax. This tax is currently held out of everyone's paycheck at the rate of 1.45%. Every dollar you earn is subject to Medicare tax. This is not the case with the Social Security tax, which is capped at a certain earnings threshold. Your employer is required to match the Medicare tax withholdings from each of your paychecks. Thus, individuals who are self-employed must pay 2.9% of Medicare tax on their entire earnings.

The third type of Federal withholding tax is supposedly to help you in retirement. Of course, we're talking about the Social Security tax, which is currently held out of your paycheck at the rate of 6.2% on your first $97,500 in wages. Like the Medicare tax, one's employer has to match the amount withheld, dollar for dollar. Therefore, if you own your own business, you must pay 12.4% in Social Security tax.

You should be aware of the fact that Medicare taxes and Social Security taxes together are referred to as FICA. Combined, these taxes equate to 7.65% for both the individual and his or her employer, which equates to a tax of 15.3% for self-employed individuals. This is referred to as the self-employment tax.

Finally, let's not forget about state income taxes. For states that collect income taxes, the rates can range anywhere from 3% (Illinois) to 9.5% (Vermont). Of course, not all states assess an income tax. These states are Alaska, Florida, Nevada, South Dakota, Texas, Washington and Wyoming.

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What sort of taxpayer are you?

The third step in tax planning is to identify the types of taxpayers. That's right, even though we have discussed different types of income and different types of taxes, we need to understand that not all taxpayers are treated the same. Identifying the different types of taxpayers (and determining what type of taxpayer you are) is where a lot of people make mistakes when it comes to tax planning. This is because knowing what type of taxpayer you are is a personal element in the tax planning equation. In other words, anyone can recite for you all the different ways in which income is taxed, and at what rates, or tell you all about different taxes, but this information will not provide much benefit, i.e. will not allow you to substantially save money, unless you look at the information relation to the type of taxpayer you are.

With some exceptions, there are basically two types of taxpayers - businesses and individuals. Whenever possible, you want to be taxed as a business rather than as an individual. In fact, it has been said many times that the greatest tax shelter in the world is to own one's own business. This is because the ways to legally reduce the tax bill of a business are VASTLY more numerous than the ways to legally reduce one's individual tax bill.

Estate Planning

Finally, let's discuss the dangers posed by probate and estate taxes. In order to protect against these threats, we must discuss estate planning. For many people, estate planning means the drafting of a will to determine who will receive your assets upon your death. Most of the people I meet think that estate planning is only for the ultra-wealthy. While a will may certainly be part of it, unfortunately, it's not necessarily that simple. There is a lot more to the process and you don't have to be amongst the rich and wealthy to desperately need estate planning.

Estate planning essentially refers to the area of analyzing an estate owner's personal affairs and assets and developing a plan for the ways in which the owner's wishes for distributing those assets and providing for loved ones can best

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be met. For our purposes, I want to give you a quick, simple definition of exactly what estate planning is all about.

Estate planning is about answering the questions of who, what, where, when, why and how. It's as simple as that. These are the questions that you need to answer in order to determine exactly what any subject is all about, and estate planning is no exception. Ask yourself these questions:

Who are your heirs?

What assets will you leave?

Where can you go to get help with your estate plan?

When should your assets be passed?

Why do you need a formal estate plan?

How can you accomplish your estate planning goals?

Now we all know that one of the greatest obstacles to preserving one's wealth is taxes. We know that we are subject to taxes while we are alive, but to add insult to injury, some of the highest taxes many Americans face are actually those that our estates are subject to after death. Yes, your heirs may owe taxes on your estate after you are dead! Doesn't this basically defeat the purpose of accumulating assets in your lifetime, just so the taxes can be passed onto your loved ones or your preferred causes? Absolutely. This is a major hurdle that must be overcome in order to have all you've worked so hard to acquire be distributed in the way that you wish. Basically, the government, along with the various laws it has passed to control the distribution of wealth, poses the single greatest threat to your heirs. This makes it all the sweeter when you learn the closely guarded secrets of the ultra-wealthy and implement those into a well-structured estate plan to legally avoid these pitfalls.

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In a nutshell, this is as brief a definition as I can possibly give you. If you can get a handle on how you need to answer these questions, the estate planning process can be as simple and painless as possible.

When it comes to estate planning, probably the most frequent question I hear is "Who needs an estate plan?" I am often told, "I don't own that much so I don't really NEED an estate plan." One of the most common misconceptions when it comes to estate planning is that someone doesn't have enough assets to worry about such matters. Let me state this very plainly: Everyone should have an estate plan!!!! Why? Simply stated, you might have accumulated more assets than you think, and you might have children or dependents that rely on your support, so you should be able to direct those assets to the beneficiaries of your choice and for the care of your dependents as you see fit.

Anyone who owns assets has an estate, period. Whether your estate fills a 50-room mansion or a shopping cart, everyone needs to have estate planning. Upon a person's death, their assets, by law, must be properly distributed. Likewise, the manner in which you want your children or other dependents to be provided for must be outlined in a properly established and operated estate plan. Exactly which assets are distributed, and to whom, depends on the estate plan he or she has in place. Without proper planning, a court could determine the distribution of their assets and the care of their dependents in accordance with state law, which might not fit the wishes of the deceased.

Another misconception about estate planning is that it is only necessary for people who are in danger of avoiding estate taxes. It is true that many estates - even modest-sized ones - will remain vulnerable to state inheritance and estate taxes. Yet the main reasons why all estates need some degree of estate planning include:

Making sure your assets go where you want them to go

Controlling assets while you are alive but incapacitated

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Controlling assets after death
Minimizing the emotional and financial burden on your heirs

Minimizing feuding over your estate among your heirs

Increasing the amount available for charitable donations

Avoiding the cost and delay of probate

Providing provisions for a guardian of minor children or for elder care

Different Stages Call for Different Strategies

Like most things in life, our regard for estate planning changes as our life experiences change. Most of us tend to view estate planning differently based upon our age and/or life stage. When we are in college or are a young adult, we generally think very little about estate planning, if at all. At this stage in our lives we typically have very little in the way of assets and are usually not married and/or have children. Therefore, our disregard for estate planning makes sense. We are often completely focused on getting started in our careers, and perhaps moving to new cities, establishing new marriages, or even beginning to foray into business. Yet as we begin to put down roots, be it in a career, our own small business, or even starting a family, estate planning will become more important to us.

Once we realize that the need for estate planning is an important first step, we also should realize that as we grow in experience and assets, our strategies for estate planning should change over time. As we enter this stage, our greatest concern should be providing for our young families in the event of our death. Since we might not necessarily have a lot of assets, we should think about life insurance, which is often rather inexpensive way to provide for our family when we're gone. Death is not a scenario we want to think about, especially as vibrant

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young adults, but it is part of our responsibility as parents, or even as home based business owners, to provide for those who depend on us with a comprehensive estate plan that continues on after our passing.
As we watch our children (and hopefully our assets) grow, the same reasons for estate planning continue to be our concern. At this point, you may or may not have added several philanthropic causes to your original list of beneficiaries, such as an alma mater, church or charities, so your estate plan might have become more complex than ever.

When you reach your golden years, not only will you have all of the previously discussed issues to include in your estate plan, but you might also want to include your wishes for your own care if you are incapacitated and unable to care for yourself, or your desires for your funeral or internment if you pass. Whether we want to think about these things, dealing with them in the present is the only way to ensure they are adhered to in the future.

Simply put, no matter what stage in our life we may be in, once you have implemented your estate plan strategy, your work is by no means done. It is recommended that every few years you review your estate plan to be sure that it still accurately reflects your wishes. Lives and wishes can change on an annual basis, so it only stands to reason that as time goes on, your assets can grow and change. Your family might increase or decrease in numbers because of births, deaths, or through divorce, so your estate plan will need to be changed from time to time as circumstances change. Your estate plan should be considered an extension of your life. The key is that now you have a say in what goes on. Tomorrow you might not.

Learning to TRUST Yourself

Most of us are familiar with the most popular form of estate planning, the will. Wills are simply written directives that outline the way you wish for the courts to distribute your assets and provide for your dependents after your death. Sounds great, and most of us have one, but did you realize that a will is basically a

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SUGGESTION to the courts of how you want your assets distributed? Wills must still go through the court system in an expensive and time-consuming process called probate where the court decides if your directives should be followed. We'll discuss probate and why you want to avoid it a bit further in the next section. So if a will doesn't accomplish our primary estate planning goals, what will? Well, you need to learn to "trust" yourself.

One of the most common tools for estate planning, besides a will, however, is the trust. What is a trust? Simply stated, a trust, any type of trust, is simply a contract whereby one person (the Trustor or Settlor) hands over property to another person (the Trustee) with instructions to hold and manage the property for the benefit of a third party (the Beneficiary). As we'll discuss in this chapter, there are many types of trusts that can be used for estate planning.

A Revocable Living Trust is an arrangement by which an individual or a couple (also called the "Trustor(s)") transfer legal title of assets from their names to the Trustee or Trustees of the Trust. A Trustee is designated to manage the Trust property according to the terms outlined in the Trust document. In most cases, the Trustor(s) often act as the initial Trustee(s) of the Trust and, therefore, maintain complete control of the Trust during their lifetime. Sounds confusing, but it essentially means that the same person who establishes the trust, the "Trustor," is also the person who executes, or carries out the trust terms as the Trustee. The Trustor(s) can thus continue to buy, sell, borrow or transfer assets at any time. The terms of the Trust, including the disposition of assets at death and/or the persons named as Trustees, may be changed or revoked by the Trustor(s) as they see fit during their joint lifetimes, so long as they are still considered competent to do so. So what is the benefit of the Revocable Living Trust?

Avoiding probate is the biggest benefit for most of us of a Revocable Living Trust. What does avoiding probate mean? We'll discuss that next, but if you think that creating and maintaining your living trust sounded complex and expensive, just wait until you see what probate could cost you! The second benefit of having a

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Revocable Living Trust is that it can also help you to reduce, or in some instances avoid, estate taxes.

Where There's a Will, There's Probate

I have already mentioned that the single most important estate-planning tool at your disposal is the living trust. Without a living trust, your estate, including personal assets, business interests, life insurance death proceeds, and government benefits, will have to go through probate. This now begs the question, what is probate and why would I want my estate to avoid it? Well, probate is the legal process used to wind up an individual's legal and financial affairs after his or her passing. Assets and liabilities of the estate are identified. Debts are paid. Taxes are filed. Administrative (attorney) fees are paid. The remaining assets, if any, are distributed to the beneficiaries of the estate as provided by a will, or without a will, in accordance with state law.

On the surface, probate sounds like a nice, tidy process, and conceptually it is. However, once a couple of attorneys, a few accountants, and our slow moving court system get involved, this process becomes a nightmare. If your estate has to be probated, it can be drained by up to 10% of its value by administrative expenses, legal fees, debts, court costs and so forth, leaving your beneficiaries with much less than what you intended them to receive. Furthermore, if your estate has to be probated, the court, not you, determines the final distribution of your estate and the guardianship of any dependents, whether you have a will or not. Even worse, your heirs will not receive any of your assets until they have been probated, which takes many, many months, perhaps even years, putting your loved ones in a financial strain. Just when you think it can't get worse, all your probated estates become a matter of public record, meaning your (or your heirs') creditors, friends, neighbors, even ex-spouses can find out exactly how much you had in assets, and use the probate process to "contest the will" in order to try to get their hands on those assets.

In addition to the burden and expense of probate, your estate can be further depleted by estate taxes, property taxes, income taxes, accounting fees, and

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more legal fees if you have not executed a living trust. In short, all of your estate planning goals and final wishes depend upon the living trust.

Where There's a Will, There are Estate Taxes

As already mentioned, the second benefit to having a Revocable Living Trust is that it can help you reduce, or avoid entirely, estate taxes. The estate tax is a tax levied by the federal government against your right to pass on your wealth to your heirs and beneficiaries. Even though you have already been taxed on income as you earned it, you could also be taxed on your any assets you leave your loved ones. When it comes to taxes, this one is probably everyone's least favorite.

So how does a Revocable Living Trust help you avoid or reduce estate taxes? Simply put, the Revocable Living Trust allows for two independent (and smaller) estates for a husband and wife instead of one large marital estate for the purposes of determining their estate tax liability. In other words, instead of having one large marital estate, a Revocable Living Trust allows for the parties to have two separate estates that are each calculated independently of the other in order to determine if they are over the estate tax threshold.

Putting Your Estate Plan Into Action

Once you have defined the goals and objectives of your estate plan, a detailed design or blueprint should be drawn up. There are basically five successive steps that are crucial to creating and maintaining your estate plan:

1. Documentation - You and your financial professional should assemble all of the pertinent facts about your material resources and assets, and the personal and financial circumstances of each member of the family or potential heirs. In doing this, you should take into account both past and potential behavior, family changes (marriage, births, divorce, deaths, etc.), financial status and responsibility, etc. as objectively as possible.

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2. Analysis - Analyze these facts and compare them against your goals and objectives.

3. Formulation - Formulate potential plans, then play devil's advocate to test them and select the one that most helps you to reach your estate planning goals.
4. Implementation - Implement your estate plan. No plan can be successful unless it is implemented.

5. Review and Revision - Perform periodic reviews and revise the estate plan every 3-5 years, on average, or more or less frequently as your life changes.

SMALL BUSINESS TAX STRATEGIES

Introduction

Between federal taxes, state income taxes (in most states), social security taxes, sales taxes, real estate taxes and capital gain taxes, most people will never get to enjoy 50% of what they earn. Yet only a handful of people in this country understand the tax system at all. Our society has been led to believe that taxes are just too complicated for most people to understand. The truth is that anyone can understand the basics and that's the first step to minimizing your liability, keep more of what you earn and build a stronger economy by building a strong business for yourself…

We do not represent that we are CPA's or giving tax advice. This is for educational purposes only. Always talk to your accountant for tax advice.

Entrepreneurial Tax Strategies does not describe a passive activity; rather it addresses a proactive endeavor that requires attention to detail and planning. But your efforts will be rewarded in real savings by your active involvement in your tax planning!

The courts have determined that you have the right to arrange your business (and personal) affairs in such a

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manner as to minimize your income tax liability. In other words, you are not obliged to pay more taxes than you
absolutely must. Furthermore, the tax code has been designed with the idea that each taxpayer will, in fact, seek
to minimize their own tax liability; so if you fail to determine and implement tactics required to minimize your tax liability, you will inevitably carry more than your own personal fair share of the tax load.

Entrepreneurial Tax Strategies addresses all the critically important aspects of business taxes, starting with the selection of the proper form of business organization. By addressing these elements, the foundation will have been established for your understanding of the initial key elements of tax survival.

Once these basics have been established, the following specific tax topics are discussed in turn: depreciation, vehicle deductions, home office, travel and entertainment, wages paid to family members and retirement.

The last two sections address specific strategies designed to reduce your taxable income, and the specific strategies designed to help you in your dealings with the Internal Revenue Service (IRS). Congratulations on your steps to inform and educate yourself.

To order tax forms and IRS publications, call 1-800-TAX-FORM.

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DIFFERENT FORMS OF BUSINISESS ORGANIZATION

PLAN: Select a “Sole proprietorship” form of business organization initially: when you are the sole owner of the business, and you anticipate that the business will operate at a loss or near break-even (zero profit).

1. Only one-owner business can operate as a Sole Proprietorship, therefore the owner will file a Schedule “C” (information only) tax form, along with their personal income tax return (Form1040).

Note: If your business has more than one owner, you will want to select the corporation form of business organization (either an “S” corporation or a “C” corporation).

2. Under this form of organization, any business profit (or loss) is shown on the bottom line of Schedule “C” (a tax form showing the business’ “Sales” (less) “Expenses”), and flows through to the owner’s personal income tax return (Form 1040).

* Profit is taxed at the owner’s personal income tax rate.

* Losses offset other income shown on the owner’s personal income tax return (Form 1040) such as: interest, dividends, W-2 wages, other business income, short-term capital gains, net rental income, and farm income.

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Note: Although your expectation is that your business will generate a profit, it's nice to know that if your business does generate a loss (hopefully just a paper tax loss, and not an actual out-a-pocket dollar loss), this loss can be used to reduce other taxable income.

3. Whenever the sole proprietorship generates a profit, the owner is liable for "Self-Employment" Tax (at 15.3% of all Sole Proprietorship profit up to $61,200 and 2.95%onallprofit excess of $61,200). Self Employment Tax due is calculated on Schedule "SE".

Note: It's this liability for Self-Employment Tax that represents the major tax disadvantage for the Sole Proprietorship form of business organization.

4. The owner pays himself or herself by writing a "Draw" check out of the business' checking account.

Note 1: Since the Sole Proprietorship is prohibited from paying the owner W-2 wages, the only way the owner can be compensated is by receiving a Draw Check.

Note 2: This draw check is a "Non-taxable Event"—meaning that whether or not the owner receives a draw check, the owner will still be liable for taxes due on the entire profit of the Sole Proprietorship, even if the profit dollars are kept in the business' checking account. As a sole proprietor "you are the business and the business is you". Transfers of cash from the "business" to your personal funds are similar to moving dollars from your right pocket to your left pocket.

5. Although the owner cannot be paid W-2 wages by the Sole Proprietorship, the owner can have the business pay his or her spouse W-2 wages, if the spouse is active in the business.

Note 1: These W-2 wages are the subject to Social Security (FICA) and Federal Income Tax Withholding plus the Employer's matching portion of the Social Security (FICA) tax due.

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Note 2: This only applies when both spouses actively work in the business, and it's a sole proprietorship.
If you are "married filing jointly," put the business in the name of the spouse who is the highest wage earner. This spouse is more likely to "max out" on a portion of Social Security (Self-Employment) taxes.

If you are "married filing separately" you should follow the following guidelines:

* If the business is anticipated to make a profit, put the business in the name of the lowest wage earner— this spouse may be in a lower tax bracket (for example, 15%, as opposed to 28%).

* If the business is anticipated to generate a loss, put the business in the name of the highest wage earner—so that this business loss can offset potentially higher tax bracket income (for example, 28%, as opposed to 15%).

PLAN: You May Want to Select an "S" Corporation Form of Business Organization When Your Business is Anticipated to Make a Profit.

1. You can elect to be an "S" Corporation even if your business only has one owner, or, if more than one owner, up to a maximum of 75 shareholders. An "S" Corporation is a separate legal entity where the individual shareholders (owners) elect to be personally responsible for the income taxes due on the pro-rata share of any corporate profits. "S" Corporation shareholders, by making this election, also receive the benefit of any tax losses generated by the corporation—all profits and losses of an "S" Corporation flow through to its owner(s)' personal income tax returns(s). (Remember, an "S" Corporation is a separate legal entity, but not separate taxable entity.) The owner(s)' pro-rata share of the corporate profit or loss is shown on only one Schedule K- 1—theirs.

2. Under this form of organization, corporate business profit or loss is shown at the bottom of "Form1120-S"— an information only business tax form showing the

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business' "Sales" (less) "Expenses and flows through to the owner(s)' personal income tax returns (Form 1040). Just as in the instance of the Sole Proprietorship:

* Profit is taxed at the owner(s)' personal income tax rate(s).
* Losses offset their other income shown on the owner(s)' personal income tax return (Form 1040) such as interest, dividends, W-2 wages, other business income, short term capital gains, net rental income, and farm income.

Note: The goal is that your business, even initially, will not actually lose money but will at worst, experience "Paper Losses" that are created by non-cash business expenses (such as vehicle mileage, depreciation, and Section "179" asset expensing).

3. The big distinguishing tax advantage of an "S" Corporation (over a Sole Proprietorship) is that "S" Corporation profits (after shareholder(s)' salaries) are exempt from self-employment taxes. The profit of an "S" Corporation is considered a Return on Investment (ROI) to its owner(s), not earned income, and therefore is not subject to Self-Employment tax.

4. The owner(s) can compensate themselves in two distinct ways: (a) W-2 Wages, and/or (b) Distribution of Profit

a. W-2 Wages: Any owner(s) of an "S" Corporation, and/or their respective spouse(s) can receive W-2 wages from the business; in fact, any owner(s) who actively work in the business are obliged to pay themselves W-2 wages for the fair market value of the work they performed for the business. This amount can be estimated by paying the owner(s) an amount that the business would have to pay someone else to do the task(s) the owner(s) perform for the business.

Note: These W-2 wages are subject to Social Security (FICA) and Federal Income Tax withholding, plus the employer's matching portion of Social Security Tax (FICA).

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b. Distribution of Profit: Owner(s) can also compensate themselves by issuing Distribution of Profit check(s), made payable to the owners(s), written out of the business' checking account.

Note: This Distribution check(s) is considered a "Non-Taxable Event"--meaning that whether or not the owner(s) receives a Distribution of Profit check, the owner(s)' will be liable for taxes due on each owner(s)' pro-rata share of the entire profit of the "S" Corporation-even if the profit dollars are kept in the business' checking account.

All corporations are "C" Corporations initially. You, as the owner, must file an IRS Form 2553 electing to have your business become an "S" Corporation.

Note 1: Your business is not allowed to become an "S" Corporation if it has more than 35stockholders who are U.S. citizens, and

Note 2: This Form 2553 must be filed within 2 months and 15 days of either.

(1) The date of Incorporation, or

(2) the beginning of the corporation's current fiscal tax year.

Plan: Select a "C" Corporation Form of Business Organization When You Have Both a Strong Desired and Opportunity to "Grow" the Business (Increase Sales) by Keeping Dollars in the Business, and are Liable for Higher Personal Income Tax Rates as the Business' Owner(s).

1. Any number (one or more) of individuals can be the owner(s) of a "C" Corporation. The owner(s) can take compensation out of a "C" Corporation in the form of W-2 wages, paid to themselves and/or their spouse.

2. Owners may wish to keep the dollars of profit in the business to "Grow" the business' sales. This type of growth may require additional funding, particularly in one or more of the following areas: cash flow reserves, accounts receivables,

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inventory, and equipment. Dollars that are kept in a "C" Corporation are taxed at "C" (regular) Corporation rates.

As long as the "C" Corporation's marginal tax rate (Marginal meaning the rate that applies to the last taxable dollars earned) is lower than the owner(s)' marginal personal income tax rate your business' form of organization should remain a "C" Corporation—a separate legal tax entity.

For example:

If the owner(s)' marginal income tax rate is 28%, but the applicable "C" Corporation marginal tax rate is 15%, the owners are better off leaving the dollars in the "C" Corporation where the business will pay tax at a rate of 15%, rather than taking the dollars out of the business as either…

a) A "Distribution of Profit" from an "S" Corporation, where the owner(s) would pay tax at a marginal tax rate of 28% (13% higher than the applicable "C" Corporation tax rate),

Or

b) (Worse yet), W-2 wages paid to the owner(s) from an "S" Corporation - creating a 28% Federal Income Tax Liability plus the potential for a 7.65% employer's matching portion of Social Security (FICA) tax due; (28% + 7.65% =35.65%, 20.65% higher than the applicable "C" Corporation tax rate).

….and then returning these same dollars (that the owner(s) took out of the "C" Corporation) back to the business in the form of a return of capital or a loan to the business.

PLAN: If You Have a Business Partner(s), You May Not Want to Consider Selecting the "Partnership" Form of Business Organization.

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1. The Partnership for of business organization is reserved for multiple owners (more than one owner) of the business. The owners will receive both a Form 1065 and a K-1 form indication their pro-rata share of a profit and or losses.

2. Under this form of business organization, any business profit or loss is shown at the bottom of an information only tax Form 1065 (a tax showing the business' "Sales" (less) "Expenses") and flows through to the owners' personal income tax returns.

*Profit is taxed at the owners(s)'personal income tax rates.
*Losses offset other income shown on the owner(s)' personal

Note: The goal is that your business, even initially, will not actually lose money, but will, at worst, experience "Paper Losses" that are created by non-cash business expenses (such is vehicle mileage, depreciation, and Section "179" asset expensing.

3. **The big disadvantage of a "Partnership"** (as compared to an "S" Corporation) is that if the business generates a profit, the owners will also be liable for "Self-Employment Tax" (at 15.3% of each owner's pro-rata share of total partnership profit up to $61,200, and 2.9% on each owner's pro-rata share of a total partnership profit in excess of $61,200).

4. The owners pay themselves by writing a check out to each partner reflecting (a) their profit/loss sharing percentage (often reflecting their percentage of ownership), and (b) the amount of time and effort the owner puts into the day-to-day business operation of the partnership.

Note 1: Since a Partnership is prohibited from paying its owners W-2 wages, the only way the owners can be compensated is by receiving these distribution of profit checks (or in the form of "Guaranteed Payments," in which case the partners receive predetermined dollar amounts of profit distribution on a regular basis).

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Note 2: These profit distribution checks are a "Non-Taxable Event," meaning that whether or not the owners receive any checks, the owners will still be liable for taxes due on the pro-rata share of the partnership's entire profit, even if the profit dollars are kept in the business' checking account.

5. Although the owners cannot be paid W-2 by the partnership, the owners can have the business pay their spouses W-2 wages, if the spouse is active in the business.

Note: These W-2 wages are subject to Social Security (FICA) tax and Federal Income Tax withholding plus the employer's matching portion of Social Security (FICA) tax due.

BUSINESS TAX REDUCTIONS

PLAN: Select the Proper Method of Writing Off Your Business' Initial Expenditures.

Your business' initial expenditures can include the following: market surveys, research in the areas of facilities, labor and supplies, grand opening advertising, employee salaries—wages during training instructors' salaries, travel to secure distributors, suppliers and/or customers, salaries for consultants or other professionals—such as lawyers and accountants, business cards, separate telephone lines, commissioned sales representatives, lists of customer leads contacted, direct mail, rental of business space, yellow pages ads, newspaper ads, radio/TV, printed fliers, or any other legitimate efforts to market your business.

These initial expenditures your business incurs can be divided into two general categories: (1) Start up, and (2) Operating.

1. **Start Up Expenditures** consist of items that are generally incurred during the first year of your business' existence—the ordinary and necessary expenditures required by your business in its initial time period; they occur during a period of time when your business is making no real effort to generate any income

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(because it's not ready to do so). These expenditures are deducted by amortizing them over 60 month period—beginning with the month in which your business actually begins operations—the month in which your business becomes ready, willing, and able to actively and materially offer its products and/or services to the marketplace.

For example:

Amortization deduction per month = start up expenses (divided by) 60 months.
2. Operating Expenditures are those items that your business incurs—in pursuit of income—after the business is already "in business". These expenditures become expenses of your business in their entirety— 100%. In fact, even if your business can still deduct all these expenditures as operating expenses, provided you can substantiate the claim that your business did attempt to generate sales revenue.

Note: Additionally, deductible interest, taxes and research and development costs can also be fully expensed during the business' start up period.

PLAN: Claim Any and All Appropriate Business Tax Deductions.

As a business owner, you must be aware of the tax deductibility of your business expenses. Listed below are some of the more common business tax deductions. They are in alphabetical order to allow easy access. Some will be obvious in their applicability, while others will require the application of specific strategies to afford your business maximum tax value.

ADVERTISING AND PROMOTION

Write off gifts that your business purchases and gives away as "Advertising and Promotion" expenses, when appropriate, to avoid the $25 maximum on the amount of each gift your business can deduct.

ANSWERING SERVICE

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If you use an answering service for business and personal use, you must differentiate between this business and personal use—developing a percentage for business usage, the balance for personal. Then you can pro-rata the dollar costs of these services between (1) tax deductible business usage, and (2) nondeductible personal usage.

BANK CHARGES

Bank charges relate to charges that appear on your business' checking account bank statement. These include charges for the cost of ordering new checks, check binders, and deductible to the business.

CLUB DUES AND MEMBERSHIP FEES

Club dues and membership fees can no longer be deducted for business purposes. Specific examples of the types of groups included in "Club Dues and Membership Fees" include but are not limited to the following: airline and hotel clubs, health and fitness clubs, country club membership costs, as well as sporting arena/stadium sky boxes which have been specifically made non-tax-deductible.

COMPUTER EXPENSES

Classify computer expenses under, for example $100, and with a useful life under one year, as operating expenses. Any computer purchases in excess of this $100 dollar figure, with a useful life in excess of one year, should be treated as capital assets and depreciated over five (5) years. The expense associated with these capital asset costs will show up under the general operating expense category of "Depreciation Expense".

EDUCATIONAL EXPENSES

Your business is allowed to deduct the cost of educational items, such as books, consulting, seminars, and other specifically identified activities and/or items that are purely educational in nature.

FREIGHT AND DELIVERY

Deduct "incoming" freight and delivery expenditures as a part of your business' "Cost of Sales" expenses. Deduct "outbound" freight and delivery expenditures as one of your business' "Operating" expenses.

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GIFTS
Gifts are tax deductible up to $25.00 per individual per tax year.

INSURANCE
The following types of business insurance premiums are fully deductible to your business: equipment, vehicles, liability, employee life and health (subject to some restrictions), business interruption, fire and theft, bonding, and workers' compensation.

Note: You may be able to exempt owners/officers of your business from workers' compensation, depending on your local State laws.

INTEREST
All business-related interest expenditures are fully tax deductible—unlike personal interest, which is no longer tax deductible for individuals.

LEASE EXPENSE
If your business lease is a "Straight Lease," this means that your business is not accumulating equity throughout the term of the lease; the lease payment is no more than a payment for the use of the asset. This form of lease payment is fully tax deductible. If, on the other hand, a portion of your business' lease payment includes "equity" so that the "buy out" at the end of the lease period is considerably less than the fair market value at the end of the lease (for example, a $1.00 or $10.00 buy out amount), this type of lease is referred to as a "Capital Lease" in that it accumulates equity and should be treated as an "Asset Purchase" for tax purposes.

LEGAL AND ACCOUNTING

LICENSES AND FEES

OFFICE EXPENSES

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Your business is entitled to deduct the cost of any and all office expenses and supplies that relate directly to the operation of your business. These costs should be deducted fully in the year in which they are incurred.

Note: Your business may also purchase "Sample Products." If these samples are for display purposes only (never to be sold), their cost will remain in a non-deductible Balance Sheet account, until such time be expenses—taken as a business' tax deduction. In some cases, however, a business' sample products are continuously for sale, and their dollar costs will remain in inventory, along with the rest of your business' unsold products until they are sold.

OFFICE SUPPLIES

OUTSIDE SERVICES

These are mainly for services for which it makes no sense to maintain a staff to perform, as they are either:

1. Not required that often,
and/or

2. Your business doesn't have the capability to perform them.

Be careful not to pay individuals who would otherwise be classified as employees as "Outside Service Providers" or Contract Labor. If an individual performs the functions of an employee, they must be treated as an employee.

Outside Service providers ideally will have their own business entities to which all checks in payment services rendered should be made out.

POSTAGE

PRINTING

RENT

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REPAIRS AND MAINTENCE
Be careful not to expense, as repairs and maintenance, any expenditures for items that are intended to have a useful life of greater than one year, as these items should be treated as “Capital Expenditures” and are subject to “Depreciation Expense” deductions, rather than current year expensing.

SALARIES AND WAGES
All salaries and wages paid to employees of your business are fully tax deductible.

SECURITY EXPENSES
The expenses associated with the security of your business could range from the monthly monitoring fee of a security system to the cost of a guard dog. These types of security-related expenditures are tax deductible business expenses.
If, however, the security of your business involves the purchase of any fixed assets, such as the purchase of a security system, then the cost of these business assets must be depreciated over the appropriate number of years in order for their cost to be a tax deduction.

SHOP SUPPLIES
Shop supplies relate primarily to either manufacturing business, where the production of a product is the major business activity, or where major repairs are associated with the providing of a business service. Shop supplies could be such items as consumable oil, cleaning supplies, and other compounds and materials (not to be confused with raw materials, which are themselves part of the cost of sales for the business), such as rags, sawdust oil compounds, and cleaning solvents, to name a few.

SMALL TOOLS

TAXES
Payroll taxes, such as the matching portion of Social Security (FICA) tax and/or Federal and State Unemployment taxes are fully tax deductible to your business. Also, other forms of taxes are equally tax deductible, including tangible personal property, intangible, and sales tax paid.

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TELEPHONE EXPENSES
If your business is operated out of a traditional business office, many expenses relating to your business' telephone activities are fully tax deductible.

* The cost of any additional telephone lines that are specifically identified for business usage are fully deductible.

* Any long-distance expenses related to your business' activity are fully tax deductible.

If you operate your business out of "Home Office," there is one restriction on the deductibility of telephone expenses. The basic cost of maintaining the main telephone line coming into your home is not deductible. However, any special features you added to facilitate your business' activities are deductible. These include such optional features as "call waiting" and "call forwarding."
Another area of telephone expense relates to the purchase of telephone equipment. You can depreciate these assets over the appropriate "depreciating recovery period," or alternatively elect to "asset expense" he cost under Section "179"—up to $17,500—in the year in which the telephone equipment was purchased and placed into service by your business.

TEMPORARY WORK ASSIGNMENT
The IRS defines the "temporary work assignment" as less than one year in duration. When you or an employee are on work assignments away from the normal place of business, the assignment creates special tax treatment of the living expenses associated with the person's temporary work assignment. If you or any of your employees are required, by the nature of the job, to spend a temporary period of time away from the work location, lodging, travel, and other expenses related to maintaining living in a temporary location are fully tax deductible to the business.

TRAVEL

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Make your travel expenditures tax deductible as business travel. The key premise in making your travel expenditures tax deductible is that the trip must be for a definite business purpose—for example: conventions, seminars, research trips, buying trips, sales calls, and even owner(s)' meetings.

Do not deduct travel for the sole purpose of starting or buying a new business.

Adhere to the two (2) hour minimum for business appointments when traveling to ensure that the day of the
meeting qualifies as a "business" day.

Be aware of the different tax rules applicable when traveling outside the United States:

* If your travel outside the United States is 100% for business, your transportation expenses are 100% tax deductible.

* If your travel outside the United States is less than 100% for business (meaning partly personal in nature), you can still deduct 100% of the business transportation expenses under either of the following two scenarios:

1. If you go outside of the United States for less than one (1) week,
or,
2. If you spend less than 25% of your travel outside of the United States on non-business activities.

HOW TO USE DEPRECIATION

PLAN: Determine Your Business' Most Advantageous "Depreciation Expense Deduction Option" Applicable to Your Business' Capital Assets.

The cost of business is deducted using "Depreciation Expense Rules." Depreciation expense represents the dollar amount of tax deduction that is allowable each year on each item of business capital equipment. This includes

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such items as furniture and fixtures, copiers, fax machines, computer hardware and software, or any other equipment you use in your business. A depreciation deduction is allowable until all applicable depreciation on a particular capital asset has been taken.

Depreciation represents the deducting, or expensing, of capital assets over an appropriate number of years. The real advantage of "Depreciation Expense" is that it is a legitimate business tax deduction for which there is not necessarily any corresponding current year cash expenditure. The dollar amount of annual depreciation expense is based on either the initial cost of the equipment, if your business purchased the item, or the lesser of cost or market value, if you have converted the item(s) to your business. The appropriate number of years depends on the "Recovery Period" applicable to a particular type of capital asset:

Examples of

Class of Asset	Assets Included
* Three Year Property	Special Manufacturing Device and Tools
* Five Year Class	Computers, Office Equipment and Vehicles
* Seven Year Class	Office Furniture and Fixtures

The following steps are required in determining the dollar amount of the "Depreciation Expense Deduction":

Step #1:
Determine the percentage % of business usage for each item of equipment
______%

Step #2:
Select the appropriate Depreciation method:

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* If the percentage % of business usage is 50% or less, -use Straight Line Depreciation.

* If the percentage% of business usage is greater than 50%, your business has three choices:
1. Asset Expensing
2. Accelerated MACRS Depreciation,
or,
3. Straight Line Depreciation

Step #3:
Determine the appropriate depreciation convention:

* Half-year Convention: Use this convention without regard to when, during the year, the asset was placed into service.
* Quarter-year convention: Use this convention if the cost of the assets placed into service during the last quarter of the tax year exceeds 40% of the total assets placed into service during the year.

Step #4:
Determine the applicable "Depreciation Rate"

A. **Asset Expensing:** Your business can deduct up to $ 17,500 in qualifying business equipment per year, per tax year, in the year in which the assets are:

1. Purchased,

And

2. Placed into service (under IRS Code Section "179")…….providing your business has purchased less than $200,000 of Section "179" equipment in the same tax year.

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Note: To qualify for a Section "179" deduction, business equipment must be used more than 50% for business purposes.

B. Half-year Convention – MACRS Accelerated Depreciation

DEPRECIATION RATE
CLASS OF PROPERTY

YEAR	3 YEAR	5 YEAR	7 YEAR
1	33.33%	20.00%	14.29%
2	44.45%	32.00%	24.49%
3	14.81%	19.20%	17.49%
4	7.41%	11.52%	12.49%
5		11.52%	8.93%
6		5.76%	8.93%
7			8.93%
8			4.46%

C. Quarter-year Convention – MACRS Accelerated Depreciation

CLASS OF PROPERTY YEAR			**DEPRECIATION RATE**	
			Placed in service…	
	1st Qtr	2nd Qtr	3rdQtr	4th Qtr
3-year 1	58.33%	41.67%	25.00%	8.33%
2	27.78	38.89	50.00	61.11
3	12.35	14.14	16.67	20.37
4	1.54	5.30	8.33	10.19
5-year 1	35.00	25.00	15.00	5.00
2	26.00	30.00	34.00	38.00
3	15.60	18.00	20.40	22.80

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4	11.01	11.37	12.24	13.68
5	11.01	11.37	11.30	10.94
6	1.38	4.26	7.06	9.58
7-year 1	25.00	17.85	10.71	3.57
2	21.43	23.47	25.51	27.55
3	15.31	16.76	18.22	19.68
4	10.93	11.97	13.02	14.06
5	8.75	8.87	9.30	10.04
6	8.74	8.87	8.85	8.73
7	8.75	8.87	8.86	8.73
8	1.09	3.33	5.53	7.64

.

D. Half-year Convention – Straight Line Depreciation

CLASS OF PROPERTY	**YEAR**	**DEPRECIATION RATE**
5 – year	1	10.00%
	2	20.00
	3	20.00
	4	20.00
	5	20.00
	6	10.00
7 – year	1	7.14%
	2	14.29
	3	14.29
	4	14.29
	5	14.29
	6	14.29
	7	14.29
	8	7.14

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Note: Changing (Switching) Depreciation Methods: Your business may change from MACRS to Straight line whenever it is more advantageous for your business to do so, i.e., whenever the depreciation rate is higher using Straight line than it would have been using MACRS.

PLAN: Use Section "179" to Asset Expense up to $18,00 (indexed each year to inflation) in Non-Real Estate Qualified Assets Purchased and Placed into Service During the Current Tax Year.

Under Section "179" your business can deduct qualified asset purchases of up to $18,000 per year per taxpayer—provided your business has purchased less than $200,000 worth of Section "179" property in the same year.

The property that is eligible for this Section "179" treatment includes vehicles (up to the maximum per vehicle annual depreciation amount allowed—starting at $3,060 for the first year), equipment, furniture and fixes, your own personal property in the business—to the extent of its business use, machinery, leasehold improvements, furniture in commercial real estate, and most other tangible personal property used for business purposes (excluding real estate).

Note: Of equal importance for you to be aware of, are those business assets that do not qualify for Code Section "179" asset expensing, such as: inventory, land, repairs, and replacements.

Computers also qualify for Section "179" asset expensing. Computer hardware is Code Section "1245" property; this Code Section "1245" property falls under Code Section "168"—meaning that it is eligible for accelerated (ACRS and MACRS) 5 year depreciation. Also included as Code Section "179" property is computer software that is bought at the same time with the computer hardware.

Note: Computer software that is purchased separately is not considered to be Code Section "179" property; it is considered to be Code Section "167" property—which means that it must written off using a 36 month depreciation schedule.

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Your business can treat all or part of the cost of individual qualifying business assets as Code Section “179” property. Your business must have a business usage percentage for this property of more than 50% to qualify for a Code Section “179” deduction.

Note: You will need to pro rate any Code Section “179” deductions to reflect the business usage percentage (%) by multiplying the proposed amount of the Code Section “179” deduction by the applicable business usage percentage (%) for the specific asset in question. You must use the appropriate unique business usage percentage (%) for each specific asset.

Your business can only take a Code Section “179” deduction in the year in which the qualified assets are:
1. Purchased,
and
2. Placed into service.

Note: Code Section “179” does not apply to assets brought into the business.

For example:

Personal property preciously owned by the business’ owners which has been converted to business usage, and/or business property that had been previously depreciated or asset expensed by another business entity. (Any attempt to depreciate or asset expense business property more than once is a violation of “Anti-Churning Rules” and is a clear violation of tax law.) Only qualified assets bought and placed into service by the business entity itself, during the current tax year, can be written off up to the $18,000 limit, and Schedule “C” income.

Note 1: Your business may not shelter the following types of income using Code Section “179”: interest, dividends, rental income, and Section “D” income. Code Section “179” deductions may not be take to the extent that they create a loss. If you are unable to use up the entire Code Section “179” deduction in one year,

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you may carry the deduction forward into subsequent years until the deduction has been used up.

Note 2: You must specifically elect to deduct property under Code Section “179”. You cannot just take the deduction and not make the election. You make this “election” by checking off the box for “Section 179 Election” on the depreciation schedules (such is Form 4562) of your tax return.

Note 3: If your Code Section “179” taxable income is low in the current year, you may not want to use this election; it maybe to your advantage to shift the greater amounts of deductions— through depreciation expense taken—into future years when your taxable income may be higher—and therefore your marginal tax rate will be higher. The higher the tax rate, the greater are the tax savings created by tax deductions.

VEHICLE DEDUCTIONS

PLAN: Substantiate Your Vehicle Usage as a Transportation Expense Using a “Vehicle Mileage Log”.

Transportations expenses include expenses associated with most business trips within your business’ home state—its “Tax Home”.

Any business-related use of your vehicle generates a number of tax write offs. But before you can take advantage of these deductions, you must first document the business of the vehicle.

Documentation is complete when you have used a “Mileage Log” to record your business miles, as distinguished from any personal miles you drive, using this same vehicle(s). Once completed, the log provides you with the total number of business miles driven. This is especially useful when using the “standard mileage rate”. The log also provides you with the percentage of business usage applicable to this specific vehicle throughout the tax year in question.

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Note: Even if you have not kept a mileage log throughout the year, you can still "reconstruct" a log at the end of the year that will meet the IRS requirements. The only difficulty in taking this approach is that you may not be able to recall all your business vehicle miles and therefore understate your deductible vehicle mileage expense.

The following three steps will facilitate the process of your determining the exact amount of deductible vehicle
expense:

Step #1:

Complete the "Vehicle Mileage Log"—see attached worksheets. Each time you see your vehicle for business, you indicate the date and the odometer reading when you start (A) "Log in Mileage", and the odometer reading when you finished (B) "Log out Mileage". By subtracting (A) from (B), you calculate the business miles driven on this particular business-related activity and put this figure in the last column on the right "B (minus) A Business Miles Driven".

At the end of the tax year, you add up the values in this column, plus totals from any continuation sheets, to arrive at © the "Total Business Miles Driven" figure.
Step #2:

Calculate (D) "Total Miles Driven" by subtracting your "Beginning of Year Odometer Reading" form your "End of Year Odometer Reading".

End of Year Odometer Reading-- ___________________

Minus Beginning of Year Odometer Reading-- (-) ___________________

Equals Total Miles Driven-- (=) ___________________

Step #3:

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This step provides (E) your “Percentage of Business Usage” figure by dividing (C) “Total Business Miles Driven” by “Total Miles Driven”.

(E) Percentage (%) of Business Usage equals (=)

(C) “Total Business Miles Driven” divided by (/) (D) “Total Miles Driven”
=____________%

Note: Once you have calculated this percentage of business usage figure, you will have substantiated business of your vehicle.

A “Vehicle Mileage Log” and a “Vehicle Mileage Log Continuation Sheet” have been provided for your use.

PLAN: Deduct Your Vehicle Business Expenses on the Basis of Either the Standard Mileage Rate or Actual Expenses.

There are two distinct methods of determining the annual allowable deduction amount for each vehicle that is used in your business. They are:

1. **Standard Mileage Rate (optional) Method:** Under this approach, you simply multiply your business mileage (as determined by using your “Business Mileage Log Worksheet”) times (x) the applicable tax year’s standard mileage rate (currently set by the Internal Revenue Service at $.30/mile). This gives you the mileage rate deduction. To this, you add tolls and parking, plus a pro-rata dollar amount of any interest expense (based on the percentage of business usage).

2. Actual Expense Method: In some instances, you are better off using actual expenses (particularly when the cost of the vehicle represents a relatively large dollar amount). Under this method, you first determine the percentage of business usage (from your “Business Mileage Log Worksheet”). Then you apply this percentage (%) to all of the tax deductions allowed under this “Actual Expense” method. Under the Actual Expense Method, you are allowed to (a) deduct the business costs of the vehicle using “depreciation expense,” and (b)

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deduct actual business vehicle expenses, such as gasoline, repairs, maintenance, and other costs of maintain the vehicle.

Qualifying for a Method:

Method #1:

Standard Mileage: **(you must meet <u>all</u> of the following requirements!)**

1. Cannot use your vehicle(s) for hire
2. Use only one vehicle at a time (no fleet of vehicles)
3. No straight leases—you own the vehicle(s)
4. No previously accelerated depreciation deductions for the vehicle(s)
5. Vehicle(s) is/are not registered in the corporation's name

Method # 2:

Actual Expenses:

Note: All vehicles qualify for this method to the extent they are used for business purposes.

Selecting a Method:
Comparing the two methods by completing the "Vehicle Business Expense Write-Off Method Selection Worksheet" provided. This will allow you to determine the method that provides the largest tax deduction.

Compare the figures under the two columns: "Standard Mileage" and" Actual Expense".

The method you select will be a function of:

1. The number of business miles you anticipate driving.

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-If you expect to drive a relatively high number of business miles, the Standard Mileage approach may provide the greater deduction.

And

2. The cost of the vehicle
-If the cost of the vehicle is relatively high, you are more likely to select the Actual Expenses approach.

Note: If you use the Standard Mileage rate to deduct vehicle business usage, do not deduct the gasoline that is used. The Standard Mileage rate includes an amount for a gasoline usage. Therefore, only deduct actual gasoline expenses if the Actual Expenses method is used. Other non-vehicle gasoline used in your business can be deducted as “Gasoline Expense” and implement that method in the first year.

Once you have implemented the “Actual” method for a specific vehicle, you will remain with the “Actual” methods—changing to the “Standard Mileage Rate” method only this vehicle’s deduction would be increased by doing so.

Note: Once you have implemented the “Standard Mileage Rate” method (either initially in the first year, or by switching to it) you cannot switch o the “Actual” methods.

BUSINESS VEHICLE EXPENSE WRITE-OFF METHOD SELECTION WORKSHEET

HOME OFFICE DEDUCTIONS

PLAN: Determine the Tax Deductibility of Your Home Office.

A recent Supreme Court finding has further clarified the IRS’s position with regard to the deductibility of a home office. This has had the compound effect of

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discouraging individuals, even those who would otherwise qualify for a home office deduction, from actually claiming the deduction.

An “Home Office” qualifies if it is a separate structure OR used to meet with clients.

In order to qualify for a tax deduction effective with the 1997 tax law changes, your home office must be used “regularly” and “exclusively” under the following conditions:

1. As a principal place of business (over half of your total hours working in your business), to conduct administrative or management activities of a trade or business,

2. There is no other fixed location of the trade or business where the taxpayer conducts “substantial” administrative or management activities of the trade or business.

3. As a place where you meet with customers in the normal course of business-if this activity is required by your business,

4. As a place where income-generating activity takes place.

For example, if you are in the debt business and use a home office in providing the service for your clients and meet with clients or potential clients there, you would be entitled to a home office deduction. However, if you bring work home from your business and do the work in a “Home Office”, you would not be entitled to a home office tax deduction.

Home office expenses fall into two (2) distinct categories:

1. **Direct Expenses**: These are expenses that benefit only the business part of your home; they can be deducted in full—they do not have to be pro-rated using percentage of business usage figures.

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For Example: painting and repairs made to the specific room, plus any special feature charges on your telephone bill—such as call forwarding, call waiting, and conference calls.

2. Indirect Expenses: These include expenses for upkeep and running of your entire home. Since they benefit both the personal and business parts of your home, you must apply the business usage percent (%) to these before deducting them.

For example: rent, second telephone line base charges, deductible mortgage interest and real estate taxes, repairs, maintenance, security system, cleaning, and home-related insurance premiums.

Identify these "Home Related" expenses that qualify as home office tax deductions and determine their dollar value.

1. **Direct Expenses**:

* Painting (specific room) $___________________
* Repairs (specific room) $___________________
* Special Telephone Features ___________________
* _________________________ ___________________
* _________________________ ___________________

Total (tax deductible) Direct Expenses $___________________

2. **Indirect Expenses**:

* Rent $__________________
* Second Telephone Line Base Charges __________________
* Deductible Mortgage Interest __________________
* Real Estate Taxes __________________
* Repairs (General Home) __________________
* Maintenance __________________

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* Security System _________________
* Cleaning _________________
* Home-Related Insurance Premiums _________________

Total Indirect Expenses $_________________

TRAVEL AND ENTERTAINMENT DEDUCTIONS

PLAN: Deduct All Applicable Expenses Associated With Legitimate Business-Related Travel.

The following types of expenses qualify as business tax deductions:

DESTINATION TRANSPORTATION
Bus, train, and airplane expenses incurred between your business' "Tax Home" and your business destination.

INTERCONNECT TRANSPORTATION
Taxi, commuter bus, and limousine expenses.

VEHICLE
Rental car expenses, and/or business mileage incurred while away on travel.

OVERNIGHT LODGING
Applicable hotel charges, along with associated lodging expenses.

MEALS
Food, beverage, tax and tips—all subject to the 50% limitation.

LAUNDRY AND CLEANING
While on business travel, you can deduct any associated laundry and/or cleaning expenses you may incur.

COMMUNICATION
Business telephone calls, mobile telephone, fax, and computer modem expenses.

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ANY OTHER NORMAL BUSINESS EXPENSES YOU INCUR WHILE TRAVELING ON BUSINESS.

Note: Establish your business' "Tax Home" for business travel purposes. Your business' "Tax Home" is your place of business (regardless of where you maintain your family residence). It includes the entire city, or general area of your business' premises. (Your personal residence may be your tax home.)

PLAN: Deduct Meals and Entertainment Business Expenditures—Subject to the 50% Limitation.

You are able to deduct 50% of your business' actual meals and entertainment expenditures while traveling. These relate to dollars spent t entertain and/or provide food to your business' prospects and actual customers.

Note: Be certain to break-out any "meals and entertainment" expenses from other deductible travel expenses to avoid having the 50% limitation apply to your business' total travel expenses.

To qualify your business' meals and entertainment expenditures as tax deductions, be certain that all of these expenditures meet the test for deductibility. Qualification requires that business meals and entertainment expenses be incurred so that they meet all four of the following criteria:

That these expenses are made:

1. With the expectation that they generate income,

2. While actually discussing business, or during activities associated with the discussion of business,

3. When the business is the main purpose for the meeting,

   And

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4. On a business guest, plus you and your spouse.

Note 1: Even if some business meals and entertainment expenditures do not meet all four of these test criteria, your business may still be able to deduct food and entertainment expenses that were incurred during actual business discussions. As always, and particularly when dealing with exceptions to tax rules, proper documentation is essential.

Note 2: Substantiate the tax deductibility of your business' meals and entertainment expenses. In order for meals and entertainment expenses to be tax deductible business expenses, they must be ordinary and necessary business expenses, plus:

1. Directly related to the active conduct of your business,
or
2. Directly preceding or following a substantial and bona-fide business discussion on a subject that is "associated with the active conduct of your business.

(NOTE: This is referred to as the "Associated Rule" relating to business meals and entertainment expenditures; you are not required to actually discuss business during the meal, or entertainment activity, as long as you discuss business directly before or after the meal or entertainment event.)

Note 3: Justify the deductibility of your spouse's business travel expenditures. New tax law requires you to justify the deductibility of your spouse's travel expenditures on behalf of your business. Your spouse's business travel is fully tax deductible under the following conditions only:

1. Your spouse is either an employee, or a co-owner of your business,
and
2. There must be valid business reasons for your spouse to be traveling.

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Note 4: Deduct travel costs associated with temporary business assignments. Your business can deduct living costs incurred while away from your tax home if the assignment is “temporary” in nature—less than one year in duration.

PLAN: Combine Tax Deductible Business-Related Travel With Your Business Vacation Travel.

Business travel is 100% deductible, even when it is combined with nondeductible personal vacation travel. This referred to as “Mixed Use” travel.

The big adventure of combining the two activities is that the costs associated with your travel to the “Business Destination” are 100% tax deductible, even if your vacation destination happens to be the same exact geographic location.

The types of travel that are particularly compatible with these mixed use (business and personal) trips include the following:

CONVENTIONS
Professional association meetings, sales meetings, and product knowledge sessions, such as those provided by your business’ suppliers.

SEMINARS
Educational workshops, new product and/or service-related meetings, marketing technique training sessions, and other business retreats.

RESEARCH
Meetings to discuss existing and/or new products and/or services.
Note: Travel to research new business opportunities, such as starting up and/or buying a business, are not tax deductible.

BUY TRIPS
Any trips you take to secure the purchase of products and/or services that your business offers.

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SALES CALLS
Expenditures associated with travel to and from prospective and/or actual customers.

OWNER(S)' MEETINGS
Any "reasonable" travel expenses associated with legitimate owner(s)' meetings.

Note: Be certain that these meetings include other owner(s), if applicable, and are not located in luxurious settings, involving extravagant costs.

Business-related travel and lodging is 100% deductible; only portions of travel that relate to non-business (personal) activities are not deductible.

In order for your business to deduct the business portion of mixed use travel (business and personal), the travel must consist of business activities for more than 50% of the time.

Deduct travel costs associated with non-business weekend stay-over activities while you are on business trips. Weekends that occur while you are on business-related travel can be tax deductible if the following two circumstances apply:

1. Saturday and Sunday must occur in between legitimate business days
and

2. It is in fact cheaper for you to stay at the business location of the weekend, rather than returning to your tax home, only to return to the business location in time for your Monday business-related activities.
PLAN: Deduct Traditional Recreation Food Entertainment Expenditures as They Relate to Your Business' Activities.

Traditional recreational expenses, such as company picnics and holiday parties, are fully tax deductible as employee benefits. This also includes de minimus employee fringe benefits such as holiday hams and turkeys.

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The cost of attendance ticket packages to certain sporting events—organized to benefit tax-exempt organizations—can also be tax deductible as business expenses.

The kinds of expenditures that are not included as potentially tax deductible business expenses include, but are not limited to, the following:

* Yacht Expense
* Corporate Apartment Rent
* Skybox Rental Costs
* Resort Cottages
* Unusual Foreign Travel
* Memberships in Travel-Related Social Clubs

PLAN: Document Your Business Travel and Entertainment Expenditures to Achieve Maximum Tax Deductibility.

It is absolutely critical that you appropriately and completely document and all travel and entertainment expenditures. Only in this manner can you qualify those expenses that can be taken as legitimate business tax deductions.

Proper documentation includes support for each expense item by providing adequate records or by sufficient evidence, oral or written that substantiates the deduction.

Whether your business has actual receipts for travel and entertainment expenses, or must rely on records that summarize the activities, the following information is essential in providing proper documentation:
* The date incurred (time, day, and date)
* The dollar amount of the expenditure ($)
* Location of the activity
* The names of the recipients of the travel and/or entertainment
* The business relationship(s) of the recipients
* The business purposes

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Documentation can be achieved by using receipts, records, or combination of the two.

Note 1: You are required to keep any and all travel and entertainment-related receipts, regardless of the dollar amount.

Note 2: Be certain to beak-out any “Food and Entertainment” expenses from other deductible travel expenses to avoid having the 50% limitation apply to your business’ total travel expense.

EMPLOYING FAMILY MEMBERS

PLAN: Enjoy the Tax Benefits of Hiring Family Members by Understanding and Using the Eligibility Rules of Hiring Family Members.

The tax benefits of employing family members include the following:

1. The wages paid to family members are tax deductible to the business.

2. Wages paid to family members are “exempt” from some payroll taxes—depending on what form of organization your business is, and which family member receives the wages.

3. There are additionally very specific tax advantages to the family member receiving the wages.

Note: The term “Family Members” refers to individuals who have a family relationship with the owner(s) of the business, including children, spouses, and parents.

The eligibility rules for hiring family members require that all four of the following tests be met before wages paid by a business to a family member are considered “Tax Deductible” under the special rules for hiring family members.

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Rule #1:
Family Business-The business, from which these wages to family members are paid, must be a “Family
Business”. A Family Business is defined as either:
* A Sole Proprietorship,
or
* A Partnership with all its partners being part of the same family.

Rule #2:
Legitimate Job-The wages must be paid in payment for specific services that were actually provided by the family member to the business.

Rule #3:
Reasonable Wages-The wages must be equivalent to dollar amounts that would be paid to a non-family member for performing the identical job(s).

Rule #4:
Pay on Periodic Basis-The dollars paid as wages to family members must be paid on a periodic basis.

For example:

Weekly, semimonthly, or monthly. This rule is to discourage business owners from waiting until the end of the tax year before making decisions on the dollars to be paid to family members based solely on the tax liability situation of the business that year.
Once the above rules have been satisfied, these wages are eligible for the special treatment reserved for wages paid to family members.

PLAN: Take Advantage of Special Tax Treatment When You Pay Your Children to Work in Your “Family Business”

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Note: A Family Business is one in which the owners of the business, a Sole Proprietorship, or a Partnership, are the parents of the children.

1. Children under age 18, working for a parent, can be exempt from Social Security taxes.

2. A dependent child can earn up to $4,000 (indexed of inflation each year) without owing nay income tax.

Note 1: If your child earns less than $4,000 in any given year, your business is not required to withhold any Social Security tax (and is therefore not required to pay the employer's matching share) or any Federal Income Tax. Pay your child up to the standard deduction.

Note 2: This means that your business can pay each of your dependent children up of $4,000 as a salary, and your business can take deduction for the entire amount. (The only exception to this is if your child has unearned (investment) income of $600 or more; then your child must file a Federal Income Tax Return whether or not your business pays them any salary at all.)

Note 3: You can still take the child as a dependent on your own individual income tax return (Form 1040).

3. Children under age 21 are not subject to Federal Unemployment Tax (FUTA), and they are also exempt from most Sate Unemployment taxes.

PLAN: Hire Your Spouse and/or Your Parents in Your "Family Business" to Gain Tax Advantages.
If your business is a family business (either a Sole Proprietorship or a Family Partnership where family members are the only partners), you can gain tax advantages from having your business hire your spouse.

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Note 1: If your spouse is a partner in your family partnership, he or she cannot be paid wages or salaries (partners are prohibited from receiving wages or salaries from the partnership.)

Note 2: If your business is non-family business, with a form of business organization of either a non-family partnership, or a Corporation (“S” or “C”), the business must treat your spouse as regular employee. (In these instances, your spouse works for the business entity and not you.)

The Tax Advantages:

1. Wages or salaries paid to your spouse are exempt from Federal Unemployment Tax (FUTA), and most state unemployment tax as well.

2. Wages or salaries paid apply toward qualifying your spouse for Social Security benefits. (These wages and salaries are subject to Employment Income Taxes, such as Social Security and Medicare.)

Note 1: Deduct Training and Education Business Expenditures—necessary to improve or maintain skills they do not qualify for a new trade or business. These expenditures are tax deductible to business as well as tax free to your spouse.

Note 2: Create a “Child Care Credit” for You and Your Spouse—Wages paid to your spouse by your business are considered earned income, and therefore allow you and your spouse to meet the earned income test for qualifying for a child care credit.

Note 3: Hire Your Parents to Reduce Your Family’s Total Tax Liability—If you were going to give your parents dollars ($) anyway, why not give them these same dollars and have your business take a tax deduction for them.

If your business hires your parents, the following tax benefits are created:

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1. Wages and salaries paid to your parents are exempt from Federal Unemployment Tax (FUTA), and also from most state unemployment.

2. You have the opportunity to “Shift Income” from a higher tax rate (either your business and/or your personal income tax rate) to a potentially lower tax rate—your parents’.

Note: If your parents are age 65-69, they can earn $11,280 with a loss of Social Security Benefits. These benefits are reduced by $1 for every $3 of earning above the limit. For those under age 65, the earnings limit is $8,160, with $1 of benefits lost for every $2 of earnings over the limit.

RETIREMENT PLANNING

PLAN: Know and Understand the Facts Regarding Retirement Plans Before You Make a Decision About Which Plan is Most Favorable for You and Your Business.

Tax Deduction Retirement: A tax deductible retirement plan has two major characteristics:

1. The dollars the employee puts into the plan are pre-tax, paid with nontaxable dollars, deductible to the business.

and

2. The dollars the employer puts into the plan on behalf of the employee are tax deductible to the business.

Note: All retirement plans base the maximum dollar amount of employer and employee contributions on the dollar amount of participant compensation (earned income). For retirement plan eligibility purposes, earned income includes the following:
*Sole Proprietorship or Partnership Net Profit

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* W-2 wages paid by the business.

There are three major retirement plan types that are specifically designed for business owners:

* SEP-Simplified Employee Pension: This retirement plan is sometimes referred to as an “SEP/IRA” because it uses Individual Retirement Accounts (IRAs) as the cornerstone of its plan.

The employer’s maximum annual contribution for an SEP is 15% of compensation (up to $22,500); the employee’s maximum annual contribution is 15% of compensation (up to $9,240).

A special form of SEP is called an SAR/SEP. The SAR/SEP is a salary deferral plan that allows the employee—at the beginning of the tax year and subject to limitations—to decide the dollar amount (if any) that he/she wants to have contributed to an SEP (instead of being paid cash, receiving a raise).

* 401(k) (Retirement Plan): This plan is qualified retirement plan—meaning that the business does not have to submit the plan to IRS for approval. The plan is based on deferred compensation. Contributions will be made out of the employee’s pay, if the employee chooses to either reduce compensation or forego increases in pay.

The employer is allowed to make contributions on behalf of the employees.
The employer’s maximum annual contribution is 25%of compensation (up to $22,500; the employee’s maximum annual contribution is 25% of adjusted gross income, or 20% of gross income (up to $9,240).

Note: An Individual Retirement Account (IRA) can be combined with an SEP, and SAR/SEP, or a 401(k) retirement plan.

* KEOGH: Keogh Retirement Plans are available in three distinct modes – Money Purchase, Profit Sharing, and Defined Benefit Plan. Under a Keogh Plan, the

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employer’s maximum annual contribution is25% of compensation (up to $30,000).

Note: There is no employee contribution under a Keogh retirement plan.

* Keogh – Money Purchase: The employer contribution is a fixed dollar amount each year, regardless of profit. This mode of Keogh is commonly used for business that (a) need a maximum contribution, and (b) have predictable cash flows.

* Keogh – Profit Sharing: The employer contribution amount year-to-year is based on the profit of the employer, and therefore can vary considerably from one year to the next.

* Keogh – Defined Benefit: The employer’s contribution is based on the dollar amount needed to provide a specific dollar benefit at the time the employee would anticipate retiring.

REDUCING TAXABLE INCOME

PLAN: Engage in Business Tax Planning Throughout the Tax Year to Reduce Taxable Income.

Tax planning refers to the process of trying to predict what the dollar amount of your business’ taxable income will be, and the makeup of your business’ tax returns that created the taxable income.

One approach to handling your business’ taxes to wait until the end of the tax year, collect all relevant tax information and have your business income tax returns prepared.

The problem with this approach is that you have virtually no control over what your business’ tax liability will be, and you will have to take your tax bills as it comes.

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By far, the better way to deal with business taxes is to engage in year-round "Tax Planning". Tax planning, to be truly successful, must continue on a monthly, or at least quarterly, basis throughout the year.

Note: Implement the three steps required to achieve tax advantaged status for your business.

Step#1:
Review of previous years' tax returns

Step#2:
Develop and implement a tax plan.

Step#3:
Acquire Strategy nadirs code-based tax returns preparation.

PLAN: Decrease Your Business' Taxable Income by Shifting Income and Expenses into the Most Favorable Tax Year.

Under certain circumstances, it may be advantageous of you to consider shifting some of your business' income and/or expense items from one tax year to another. Although it is not always possible to do so, you should consider taking this action if you are able to reduce the combined tax liability for the two years in question. Even if all you do is defer tax due until the following year, this strategy is worth implementing.

This strategy is only applicable to your business if it is on a "Cash Basis" of accounting:

Cash Basis: Income = Cash Received
Expenses = Cash Payments Made
Accrual Basis: Income = Cash Received + Credit Sales
(generating accounts receivables)
Expenses = Cash Payments Made + Credit Purchases

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(generating accounts payables)

One of the most useful applications of income and expense shifting is to defer income and accelerate expenses– in a combined effort to shift taxable income from the current tax year to the next – assuming that your business' tax rate is not expected to be higher next year, to the degree that higher taxes due next year increase your business' total taxes due between the two years in question. Conversely, if your business' total tax liability is better served by keeping its taxable dollars in the current tax year, your business could attempt to shift taxable income back from next year to the current year.

Depending on whether you are shifting forward or back, you will use the following approaches:

Shifting Forward:

1. Delay cash receipts (by delaying billing)
2. Accelerate cash payments (by paying all legitimate current year expenses before the end of the current year)

Shifting Back:
1. Accelerate cash receipts
2. Delay cash payments

Note 1: Expenditures that qualify for accelerating or deferring include, but are not limited to the following: advertising, legal fees, accounting fees, and insurance.

Note 2: The IRS can disallow deductions that are clearly attributable to another tax year, and/or income that is not recognized in the proper tax year.

PLAN: Calculate Your Business' "Tax Savings" as a Function of the amount of the Deduction, and Your Business' Marginal Tax Rate.

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The greater the amount of your business' tax deduction, the greater the tax savings. The higher your business' "Marginal Tax Rate" (the tax rate applicable to the last dollar of taxable income), the greater the tax savings

AVOIDING THE IRS

PLAN: Avoid Federal Tax Compliance Problems by Adhering to Internal Revenue Service Rules and Regulations.

As a business owner, you are required to adhere to the numerous Internal Revenue Service's (IRS) tax reporting requirements that apply to the business. Ignorance is not excuse, and the failure to comply is met by IRS imposed penalties and interest. If you fail to comply, the lump sum tax due, plus penalties and interest could be more than your business could financially withstand.

Therefore, you must adhere to IRS requirements, particularly in the areas of:

1. On time tax payments,

2. Avoiding the taking of improper tax deductions,

And

3. Meeting all tax reporting deadlines.

PLAN: Run Your Business Like a "Business" and not Like a Hobby.

The Internal Revenue Service uses, as a guideline, a working rule that if your business shows a "profit" on its federal income tax return three out of five consecutive tax years, the IRS will assume your business is being operated as a "business", and not as a hobby.

However, if your business fails to show a profit three out of five consecutive tax years, the IRS will then look further for evidence, they will conclude that this

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operation is not a business, but is in face a “hobby”, and they will not allow you to use any business losses to shelter any of your other taxable income.

If you can show that you conducted your activity in a “business-like manner”, and intended to make a profit, you can have losses for many years.

The key, therefore, is to in fact run your business in a “business-like manner” with the objective of making a profit.

PLAN: Order a Federal Tax Identification Number (ID#) When Required.

The IRS requires that you have a Federal ID# under the following conditions:
* When you have employees.
*When you create an artificial business entity—such as a corporation or partnership.

Note: If you are operating your business as a Sole Proprietorship and have no employees, you can use your own Social Security number as your business tax identification number. However, for personal security reasons, it is not an ideal situation for other individuals to know your Social Security number, as they could obtain copies of your personal financial information (such as your credit report) once they know this number. If you use a Federal ID#, instead of your Social Security number, you can avoid this kind of potential exposure of your personal information.

As a direct result of the IRS requirement, your local bank will also require that your business have a Federal Tax Identification number, in order for you to open up a business checking account.

There are two methods for obtaining a Federal Tax ID# for your business:

1. By completing and signing an SS-4 Form, and mailing it directly to the appropriate IRS Service Center, and/or

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2. By contacting the IRS by telephone, you can be assigned your Federal Tax ID# on the spot. You are required to read aloud the information shown on the completed SS-4 Form. When the IRS verbally assigns your Federal ID#, you should write this number on the top right-hand corner of the SS-4 form, and mail this completed and signed SS-4 Form to the appropriate IRS Service Center.

Note: Under both of the above methods, the IRS will mail your business a written confirmation of the Federal ID#.

PLAN: Obtain a State “Sales Tax Number” (and “Exempt” Number) for Your Business if it is Required to Collect State Sales Tax, or Purchase Goods for Resale.

If your business is located in a state that has state sales tax, there are two issues to address:

1. If you are required to charge sales tax on all table sales made by your business, then your business must pass through all collected sales tax dollars to the state, when due.

2. If your business purchases goods (inventory) for resale, it can avoid paying sales tax on these inventory items, when your business purchases them, by obtaining a sales tax exempt number from the state and showing this number to your inventory suppliers. This exempt number is a sales tax number. This means that your business is “exempt” from paying sales tax on the inventory it purchases because it will charge, collect, and remit to the state, sales tax on the items it sells to its customers.

PLAN: Keep a Federal Tax Forms Due Date Schedule Handy as a Guide to Timely Tax Form Filing.

Some of the federal taxes for which a Sole Proprietorship, a Corporation, or a Partnership may be liable are listed below on the “Federal Tax Form(s) Due Date Schedule” included for your use.

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Note: If a due date falls on a Saturday, Sunday, or legal holiday, it is postponed until the next day that is not a Saturday, Sunday, or legal holiday. (A statewide legal holiday delays a due date only if the IRS office where you are required to file is located in that state.)

You may be liable for:
* Income Tax
* Self-Employment Tax
* Estimated Tax
* Annual Return of Income
*Social Security (FICA) Tax and Withholding of Income Tax
*Providing information on Social Security (FICA) Tax and Withholding of Income Tax
*Federal Unemployment (FUTA) Tax

Tax Lien Investing for Robust Returns

Tax-related investments such as tax lien certificates and tax deeds are unique and little-talked- about investments that are backed by the government. If you choose to invest in tax-related investments, you'll usually get reliable returns that are secured by real property. you'll learn how you can make "partner with Uncle Sam" in tax-related investments and reach your financial goals.

Let's talk about the differences between tax lien certificates and tax deeds and how you can profit tremendously from both.

What is a Tax Lien Certificate?
Perhaps a better question to begin our discussion is what is a property tax? State and local governments raise money to provide benefits and services to their citizens. In order to do this, the governments are authorized to levy and collect taxes on real estate property. The amount of the tax is based on the property's assessed value. The level of taxation is established by the current millage rate.

A mill is equal to $1 per $1,000 of taxable value. If a property's assessed taxable value is $125,000 and the millage rate is five, the tax would be $625.

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Homeowners owe this annual tax, the amount of which is based on their property and its millage rate. The tax is usually collected by the county tax assessor, then distributed to entities such as cities and school districts as required.

But what happens if that tax goes unpaid? The county wants its money and certainly can't suspend services until the homeowner "decides" to pay. Public services like schools, law enforcement, and fire protection must continue. The county's answer to this dilemma is to place a tax lien on the property and sell a tax certificate to an investor to recover the taxes due to the county.

Once that tax certificate is generated an investor just like you can purchase the certificate at a county auction. That's how the county actually collects the money due. Investors "compete" for the best certificates by bidding. The high bidder receives a tax lien certificate and in doing so steps in and pays the taxes on the homeowner's behalf. When the homeowner pays, you, as the investor, receive your initial investment plus a healthy amount of interest and/or penalties. Think of it as an "unofficial" loan to the homeowner. An interest rate is charged to the homeowner, which varies by state law from 8% to 24% and higher in some cases.

When the homeowner pays the lien amount (and most will to avoid losing their property), they also pay interest and penalties, which results in a high secured return to an investor.

If the homeowner doesn't pay, you may be able to acquire the property for the price of the certificate. While most homeowners will eventually pay the tax in order to avoid losing the property, some do not. Either way you get a high, secured return or a valuable piece of property.

Laws are different from state to state and counties within states, so you need your training to understand the specific laws that apply to the sale of tax lien certificates in your area.

Tax lien certificates have key advantages over other investments. First, you are able to invest with a small amount of money, but still receive a high investment return at relatively low risk. The money you invest to pay off the back taxes is secured by the property. If the taxes are not paid, after a period of time established by law, the investor gets ownership of the property.

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Please realize that your investment will be tied up in a particular deal for a specified amount of time and therefore can't be directed to other investing pursuits. However, if you are looking for an outstanding and very secure return on your savings, retirement, or investment portfolio, tax lien certificates are a good vehicle.

TLC Purchase Process

While you'll learn more about tax-related investments at 's free 2-hour workshop, here's an overview of the purchasing process to whet your appetite.

You'll need to contact the counties in which you are interested in investing to learn about their auction timing as well as policies and procedures. Some auctions only occur annually, so timing is everything! If you find that the annual auction happened last month, you'll have a long wait until the next investing opportunity.

Begin by calling a few counties to just get a feel for how things are handled. You'll likely find that some "favorite counties" stand out. Those are the ones where the person on the telephone line is very friendly and volunteers all sorts of helpful information. At the end of this special report, we've included a handy list of questions for you to ask the person about tax lien and tax deed sales.

Be sure to call more than one county. The information you get will vary from one county to the next, and one county may fill in a gap left by another. This also gives you more of an opportunity to become familiar with the terminology used in your state and counties.

Once you know the date, time, and terms of sale, obtain a copy of the list and start researching properties. As you look at the list, get beyond the fact that there are thousands of parcels, and get over the feeling that you will never get through all of it. Remember, that each of those many tax IDs represent a real property. You'll want to research those real properties to ensure that you are buying a certificate on a valuable "home" that someone would hate to lose.

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You don't have to get through all of them, just find the ones you might want to buy. Each of the parcels that have an unpaid real estate assessment is assigned a unique identifying number.

As you get more familiar with these lists, you will be able to pick out neighborhoods just by looking at these numbers. Whether the number is called a tax ID number, a folio number, a parcel number, or something else, its function is to identify that property. Once identified, it is easy to obtain information on it. That number is usually enough information to find the legal description (if it isn't already on the sale list), the property address, the owner's name, the assessed value, the size of the parcel, and any structures or improvements.

If it all still seems too overwhelming, narrow your search. If you've earmarked a certain amount for your tax lien investing, immediately disregard those parcels with certificates priced higher. In fact, you may want to buy two or more certificates in order to diversify. If you have $5,000 set aside, you may consider buying one expensive certificate or three in the $1,500 range.

You'll also note that not all of the certificates are on single family homes. You'll find commercial properties and even vacant land. Which type interests you most? The property descriptions will give you the answers to these questions. No matter what, you need to ensure that any property you find has a value that exceeds the back taxes owed. Owners pay taxes to avoid losing valuable properties. In the rare cases that they don't, you come into possession of a worthwhile piece of real estate.

Next, make sure that you understand the bidding process of the area in which you will be operating. In some counties, the bidding starts at the maximum rate set by law. The bid winner is the one bidding the lowest interest rate. If the first bidder bid the maximum allowable interest rate, the next bidder would bid a lower interest rate. For example, if the opening bid is 15 percent, the next bidder may bid 14½ percent, the next, 14 percent.

Bidding proceeds in this fashion until there is no further (lower) bidding. In other words, persons bidding down on the rate are indicating that they are willing to accept a lower interest rate on that tax lien certificate. The delinquent taxpayer still must pay the full statutory rate; however, the county keeps the difference.

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In some states, the county is auctioning the percentage of interest in the property. For example, if the back taxes equal $5,000, the certificate cannot be for more than $5,000.

The opening bid would be 100 percent. If there is more than one bid, the next bidder would bid less that 100 percent. Bidders competitively bid down the amount of property he or she would actually control in the event of a foreclosure. Theoretically, the winning bid could be between 99 percent and 1 percent interest in the property. The person willing to take the smallest interest in the property will become the certificate holder.

Another type of bidding involves the amount of the certificate being bid up. Even though there is a statutory rate of interest paid on the face amount of the certificate, the bidder may pay more than the face amount for that certificate. For example, a $5,000 tax lien certificate could be bid up to $6,000. Under this system, the excess bid would reduce the bidder's yield because the bidder does not get that surplus back. The bidder will receive the highest interest the law allows, but the premium paid (in this case the $1,000 overbid) goes to the county general fund. So when a bidder overbids but only receives the face amount back, that bidder automatically has a decreased yield.

This is one of the reasons why it is so very important to obtain a copy of and understand the rules of the sale and the bidding process before you bid.

If you don't have the money to do this all by yourself, consider partnering with another investor. If you decide to go this way, make sure you put your agreement in writing and have an attorney review it. Make sure each party understands exactly what was agreed to. You want your investor relationships to be long-term and run smoothly, so take the necessary steps upfront to ensure success.

In some cases, not all tax lien certificates sell at auction. If that happens, you may be able to buy unsold certificates after the auction. The advantage to buying unsold certificates is that you have no competition. The certificates are available at the stated interest rate, and you are not bidding against anyone. The downside

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is that the tax lien certificates attached to the most desirable properties have usually already been sold.

Be sure of what you are buying before purchasing any tax lien certificate. Even though you're not getting title to the property, its value to the current owners and/or prospective buyers is important. It will help you determine how likely it will be that the property will be redeemed. Remember, you may end up with the property. It doesn't have to be something that you would live in or want to own as a long-term investment, but it should be marketable.

To understand exactly what type of property is attached to any given certificate, search the public record. Some counties have even provided this kind of information online. You will still find the most information by going to the county land records office.

When you are conducting a title, lien, or judgment search, be on the lookout for the different types of encumbrances or easements; these will affect value. What you are looking for are all liens or encumbrances against the property and their order of priority.

Always investigate to see if the owner has any equity in the property. The greater the equity, the greater the chances the owner will try and hang on to the property, and therefore much more likely to redeem, or pay off the tax lien certificate. If there is little or no equity, or the owners are out-of-state owners, the greater the odds he or she will walk away. Depending on whether your ultimate goal is high return or property ownership, you can use the above criteria to choose the liens you purchase.

Instead of buying the tax lien certificates, you might want to use the lists to locate and send letters to delinquent taxpayers, offering to purchase the property. If you offer to buy someone's property, there are things you need to look for before you take title to a property.

If there are liens or judgments against the property, as the new owner, you now have liens or judgments against the property. However, this should not discourage you from trying to acquire properties using very little, if any, of your own money. Familiarize yourself with property values in the areas where you

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wish to purchase certificates. Familiarize yourself with the appropriate laws and regulations. If necessary, have a local title company or real estate agent help you.

In a tax lien certificate state, the road to actually owning the property is a two-step process. First, you purchase the tax lien certificate. While ownership of the certificate gives you a priority lien on the property, it does not give you title or possession. The owner of the property still has an opportunity to redeem by paying the back taxes, plus interest and any penalties. The amount of time the owner has depends on which county you purchased the tax lien in. Different states have prescribed different deadlines, so it is important to know the specifics of your state's and/or county's policy.

Remember, though, that most certificates redeem, so it is much more likely you will get your money, plus a generous interest payment, than it is that you will get the property. If the owner of the property redeems, the tax collector will notify you to present your certificate to the designated office, where you can pick up your check.

In many states, if the owner of the real estate does not pay the back taxes within the prescribed time, you can foreclose on the property and force a sale. Some states will initiate the foreclosure process for you, after you make the appropriate application and pay the required fees; others require you to initiate the process yourself. Some places will even require you to bring the taxes up to date before initiating the foreclosure process.

Therefore, be prepared to pay the taxes. This is another reason to choose only properties that have a value greater than the amount of the tax lien certificate.

Tax Deed Details

Many states authorize the counties to start foreclosure and sell the property at public auction without first having sold a tax lien certificate. However, just as in a tax lien state, a property owner still has a right of redemption. This right of redemption is set by state law and varies from state to state. As in a tax lien state, before investing ask about the length and requirements for redemption.

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For tax deed sales, begin by reviewing the list of properties to be auctioned. Immediately cross off those properties that you are sure will not interest you. For example, check the type of property (residential versus commercial), the opening bid, and the property's location. It does not have to be your dream neighborhood, and you should not base your decision on whether or not you would live there, but it should be easily marketable.

After making your initial choice of properties, begin researching for more detailed information on those properties. Once there has been a determination that a property is to be auctioned, notification of that decision is forwarded to the appropriate agency. This puts into motion the legal proceedings to foreclose on the property to collect the unpaid taxes. The public file is available for you to review. This file will contain most of the important information you need to begin your own file. It will usually indicate whether there are any special assessments, liens, or other encumbrances on the property. Often there is some information about the owners. This may be useful if you are trying to determine the likelihood of the owner redeeming. Once you have determined what, if any, liens or other encumbrances are on the property, and which ones fall off, you are ready to determine what you are willing to bid for the property.

This is a good time to find out if there are any additional problems with the property that may affect its value or marketability. This would include any restrictive easements or covenants, any environmental or zoning issues, or other restrictions. Title issues will vary with the location. If you need help in this area, consult your mentor.

While at the auction, pay close attention to the participants. Try to see if they have a particular style of bidding. Even if you don't buy anything at a particular auction, you will learn a lot from the prep work and observing or participating at the auction. If you weren't able to get a property you had your eye on, don't get discouraged. Your time will come.

Tax-related investments are a valuable part of any real estate investor's toolkit and you'll learn much more about them and other investing strategies at the free two-hour workshop. The experts know how to guide you through the process to maximize your return and reach your financial goals. Let them help you and you'll see why we believe generous interest rates (possibly over 35 percent) on an

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investment secured by the real estate property to which the lien is attached with the possibility of eventually owning the property make tax lien certificates a win-win-win for any investor.

Tax Lien State

• When are the taxes due for the county or counties in which you are going to be working?
• When and where are the tax lien certificate sales conducted?
• How is the sale conducted?
• Is it an auction of individual certificates or are they sold in blocks?
• What are the rules of sale?
• Where is the sale conducted?
• What county official conducts it?
• Where is notice of the sale posted or published?
• What is the applicable law? Where can you find a copy of it? Has it been revised recently?
• Have those revisions gone into effect?
• Is there is a Web site that contains information on tax lien certificate sales? If so, what is the Web address? Is there a property appraiser's Web site/database? Are there other county Web sites that might provide useful information? These could include mapping or recent sales, zoning, records, and much more. As you become more proficient, you will understand the value of having this information available online.
• What is the interest rate or penalty paid on the lien certificate? How is it calculated? Some states provide for simple annualized interest while others have minimum rates of return and penalties.
• What is the redemption period? (How long does the property owner have to pay the back taxes before they risk losing their property?)
• What happens to tax lien certificates that are not sold at the sale?
• Are they available over the counter?
• If so, what is the procedure for buying tax lien certificates over the counter?
• When does real estate become delinquent?
• How soon thereafter does the county conduct its sale?
• What must a tax lien certificate holder do to acquire a deed if the property is not redeemed?
• What happens to tax deeds that are not sold at the sale? Are they available over the counter? If yes,what is the procedure for buying tax Deeds over the counter?

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Tax Deed State

• When is the sale conducted?
• Does it take place on a regular basis, such as the third Wednesday of every month?
• How is the sale conducted?
• Is it an auction or a sealed bid?
• Is there more than one type of sale?
• Where is the sale conducted? By what county official?
• Does a private auction company under contract to the state or county conduct the sale? If so, what is the name of that company, and how do you contact it?
• Where is notice of the sale posted or published?
• What is the applicable law regulating these sales? Where can you get a copy of it?
• Is there a Web site that contains information on tax deed sales? What is the Web address?
• After the sale, what is the redemption period?
• Do you obtain possession of the property in the meantime, or does the delinquent property owner remain in possession?
• Who can redeem? When does the redemption period begin? Does anything affect the running of the time period?
• What happens if the property owner redeems? Do you receive your payment plus interest? Do you receive payment for any out of pocket costs or improvements? If he remained in possession, do you receive reasonable rent?
• What kind of deed do you receive?
• What are your rights pursuant to the deed?
• What happens to liens on the property when it is sold?
• What happens to tax deeds that are not sold at the sale? Are they available over the counter? If yes, what is the procedure for buying tax Deeds over the counter?

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