Episode 137 - The 5 Pillars of Tax Planning with Shahar Plinner
Episode Transcription

"As tax professionals or tax gurus as we refer to ourselves, we're not magicians."

Shahar Plinner: The same as like in a professional sports team, you have different coaches for different segment of... You know, we have the defense, you have the offense, you have the special team, same with the business.

Speaker 2: Welcome to Your Business Your Wealth where your hosts Paul Adams and Cory Shepherd teach founders and entrepreneurs how to build wealth beyond their business balance sheets.

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Paul Adams: Hello and welcome to Sound Financial Advice. My name is Paul Adams, I'm founder and CEO of Sound Financial Group. I wanted to give everybody a heads up on the new name. The new name that we're rolling out for the podcast is Your Business Your Wealth. So what you're gonna see over the next coming weeks is some things changing in your podcast feed, it's still us, it's the same quality knowledge and programming about your money and yet, we're just changing the name to have it better fit those with whom we plan to serve.

Paul Adams: Hello and welcome to Your Business Your Wealth. I am Paul Adams, your host today. That's right, I'm unsupervised. Cory is not here to keep track of me or stop me from going off the rails, and we are excited about our guest today. We have a gentleman, his name is Shahar Plinner. And what Shahar does is totally different than what you might expect a CPA or accountant to be. He's an entrepreneur first, and an accountant incidentally. You see, he moved here to the US in 2005. He started working for a national accounting firm and grew the local practice in the Seattle area so quickly that it got him accolades and awards from across the country, he was outperforming other offices.

Paul Adams: But like many of us, he realized he might be able to do something different or better for the people he wanted to serve, and in his heart like most of you listening, that entrepreneurial bug started to grow and launched him into GPO accounting located here in the Seattle area but with offices in Tel Aviv and Sri Lanka, they now have 35 employees, and just an amazing story of growth not because he's the accountant, but because he's an entrepreneur first helping entrepreneurs. And we're gonna be talking today about the five pillars of tax planning, what you can do inside of your business and what some of you we know are listeners are those high income solopreneurs, you have little to no overhead, lots of revenue that puts you in a position like I've seen over and over again where you make more money than you ever thought you'd make in that first year you have your breakout year. And what ends up happening? You end up working the entire next year to pay off the tax bill you weren't prepared for. So I'm excited to have you here, Shahar. Welcome to Your Business Your Wealth.

Shahar Plinner: Thank you, Paul. Pleasure to be here and excited to be with you on your podcast.

Paul Adams: Well, and I've been really looking forward to just pulling apart these five pillars that... We've had an opportunity to work on clients together, and all the areas that people are not totally familiar with 'cause they think oftentimes, that I'm gonna go to my accountant or I'm gonna go to my accounting firm and what they're gonna do is handle my 1040, handle my business return, and that's gonna be it, but there's so much more planning that can go into it. And certainly, if you have a team of people around you helping you with your wealth and money, they can make an enormous difference. So could you start by just walking our audience through those five pillars and we'll just take 'em one at a time.

“Zero tax means, usually in most cases, zero income. For most business owners it’s a death penalty.”

Shahar Plinner: Sure. So again, when I'm facing my audience or my clients, usually there's coming this question around, "Hey, so what's usually... What do you think the best tax loopholes and how can I save tax?" And I think that the most exotic answer that we can come out with will be planning. And us tax professionals or tax gurus that we refer to ourself, we're not magicians, so as much as we know what we're doing again, we have this unique and creative solutions usually to pull a bunny out of the hat, after a season ends or after the year ends, it's pretty challenging. So my main goal for the audience and to understand that... Be on top of your taxes or just approach it the same as you approach other things in your business like marketing, sales and stuff, the same as you plan for those events, plan for your taxes.

Paul Adams: None of our listeners are in a position in their business where they're like, "Okay. So the year's over, so I'm gonna have one meeting on my marketing and then we're done with it for the year." They're in that stuff every week, and I think that's a key distinction is, to be able to actually do similar planning around tax that you would with any other division of your business.

Shahar Plinner: The one challenge that I will go with the business, so I'd ask him. "So how much do you spend on marketing on every year? Like this three, four, 5% of your budget?" and then my next question will be "So what is your really highest expense in your business? What do you spend the most amount of time and money in your business?" and then I'll get random answers around employment, and mortgages, or loans, or marketing and sales, but people forget to connect taxes to your business, which mean by far, taxes is the highest expense small business and individual people pay. And from some reason, it's the one or the number one identity that's not managed or planned for, so what do I miss? Where's the disconnect between why the highest expense is not managed? And when we go through these discussion with clients, we just... We have these deer eyes or these statements around, "I cannot manage my taxes. If I touch my taxes, I know I'll get audited. If I'll be creative, something will fall out of the sky and kill my business!"

Shahar Plinner: And there is a lot of fear around taxation. One of our statements for clients is taxes is not a dead end, taxes maybe it's a roundabout. You may go in circles for just to find the right exit, but believe me, there is an optimal and efficient solution for every solopreneur out there. And the same as you're not afraid to interact with your sales and marketing and employment situation, why you are afraid to take care of your highest expense kind of that not managed. So this is part of our philosophy about reduce the level of anxiety. Bring the discussion to be cool, fun, funny, around another item on your balance sheet, or around one item on your P and L. Depends if taxes are deducted or not on which area.

Shahar Plinner: So the discussion should be fun, and encourage people not to be afraid of something that really need to be managed. And we're doing it very simple by attacking this, what we call five pillars of finance around tax efficiency.

Paul Adams: Let me ask, right before we hit the first in the five pillars. I think a question that might be sitting there with our audience right now is, how often should I be meeting with my accountant through the year? Because I would imagine if I have a weekly marketing meeting I'm probably not gonna meet with my accounting firm weekly. How often do you encourage your clients to engage with your team members to make sure that they're actually planning and taking good care and not just randomly hoping it works out?

"What's the best loophole? Planning!"

Shahar Plinner: So it varies between industries but what... We divided the years into trimesters not into quarters. This with our meeting, which mean we want at least three times to see you. The beginning of the year, the first trimester, will be January to April-ish. We file the taxes, we speak about what we see, and we already planting the seed for what we actually want to change for the next two trimester coming. The middle review, the one that actually happens between May to August, September, for us is the most important one, because then this is the area and the timing where we have the most to influence and make changes. And the last one is what we call the end year review, is to make sure that we just do the last year adjustments, knowing most of the income for the year, knowing most of the additional income coming from the year from your rental, from your interest, dividends, capital gains, then we can go back into the business and adjust inventory, salaries, bonuses, retirement, investment, distribution, things that we want to do before December 31st to make sure that we get an efficient tax structure, but we're not also harm in a way your ability to be financial lending or banking.

Shahar Plinner: So keep in mind that part of our philosophy is not to kill your tax bill. Zero tax means, usually, in most cases, zero income. For most business owners, it's a death penalty using any banking, lending or any leverage into their business. So again, part of the discussion would be at least three times a year. Majority of businesses consume us at least once a quarter when we finalize the quarterly statements. And then we definitely ask clients to approach us every time there is a life-changing event, every time there is something great or not so great happening with their business or their life, so we can respond while the event is happening and not after the fact. Again, remember planning before.

Paul Adams: So that would be like marriage, divorce, buying another business, bringing on a partner. And I would imagine also significant increases in say, sales in a business where they're gonna be... What would you say would be like your hard-line, you gotta see your accounting team if your get up is at 20%? You have a quarter that's 20% higher in the beginning of the year than prior year. What's the time that you're like we gotta definitely talk 'cause you've hit a red line and new level of performance?

"A loophole is not breaking the rule. A loophole is technically following a rule that exists in the tax code in the normal lexicon of how people use it."

Shahar Plinner: So because each business owner is different, we definitely want to get into the feelings, which mean if you feel that something is wrong, because as business owners, I'm asking how much the business made last month. I won't probably be able to give you like a firm number without getting into the books, but if you ask me about, I will give you an about number of how much the business made last month, the previous month, last quarter, 'cause I'm involved in my... So I can feel things. So, when you feel that something is wrong, you feel something about your metrics, about your marketing and sales doesn't hit the numbers, something around you're paying too much taxes to a specific state that you start working in, something about your employment taxes and your [11:33] ____ with the business, something between a capital to revenue, something about your KPI, something that you review on a monthly basis is just a little bit out of the chart. Or maybe you just have a feeling around the need to refinance, they need to reduce some overhead on the balance sheet, they need to hire more employees, the need to just...

Shahar Plinner: This is where a non-number feeling or non-number criteria will give you the sense to say "Hey, Shahar, something is wrong. Let's bounce some ideas." And keep in mind that there's an entrepreneur and tax gurus, our business guys is not just calling us for tax questions or calling us is business to business. It's a CEO to CEO that say, "Shahar, what do you think about different things that we're doing?" And it can be as Paul mentioned, buying a new business or getting into a new territory, trying to benchmark a service or a product into some margins, hiring, firing, on top of all of the most obvious tax questions around, why do I pay too much, why I don't take home so much, why my retirement is not as big as I want? Some general questions.

Paul Adams: And I would almost, having heard you talk about that before, that feeling that might need to drive you to have a conversation earlier, I would imagine it also goes the other way, like, "Man, we are killing it." Like that feeling. It might not be about the percentage increase, which is like, "Man, I feel like we're more successful than we've been." Like that really good feeling of the... Like, we got an upslope or that pit in your stomach that maybe something is off here. Either of those would be a reason to at least engage your accounting team with a phone call and a check-in well before all the fruits have come from that feeling.

"It's really a mission for us kind of to share our knowledge, specifically with entrepreneurs like us and make sure that all of their hard work is not wasted."

Shahar Plinner: Correct. And in GPL, basically, we combine both what we call the controlling CFO under the tax regime, which means we're not just tax people, we're also people that manage accounting for our clients. So, sometimes the feeling is around, "Direct me to places where I bleed the most every month from unnecessary overdraft fees or some shipping or some office expenses." This is the area that we can actually do benchmarking, and help business owners to understand how much they spend in compare to other businesses in their category or in their size. So me as a business owner, I have the most feeling towards the business. Nobody else can tell me what's wrong about my business, but me. But to give the evidence or the data for me to fix things, this is where I'm using my accounting team or my tax team for me, and this is what we do for our clients.

Paul Adams: Right on. So let's dive in. Can you give everybody just a quick run through the five pillars, and then I'm gonna wanna dig in with you on every single one of these.

Shahar Plinner: Sure. So the overall GPL philosophy is start with the end. Start with the end mean, we first need to think about taxes. Tax, accounting, tax. Because if you don't think about your tax structure or what tax should be at the end of the year, you can have the most and the beautiful financials, clean and compliant, and with the best ratios. But when you go and file it on the wrong entity structure, single member LLC, S corp, C corps, you don't know exactly what you go through. So those financials means nothing because you end up with a very clean financials and a huge tax bill. So our goal is to think first tax, then accounting, and then think at the end tax, which lead to the five pillars. One, tax savings. This is the first one that we're born for. This is where us, tax gurus, will investigate on a quarterly basis, on a monthly basis, on a daily basis, credits, deductions, expenses, things that we can legally intervene through your business, and make sure that you use them to the extent, and take the most out of them with your business.

Shahar Plinner: The second one is cash flow. Cash flow is really important for us. Cash is king, and therefore, we want to make sure the flow of cash is correct inside the business, and actually keep you in business. The third one is compliancy. Everything under the sun need to be compliant. Employment level, city level, state level, federal level, international level, rules are changing. Your business model is changing. We want to make sure that every state, federal, and entity that you touch, you're 100% compliant. But again, on the other side, you take every dollar of your tax payments back, so you don't leave any money on the table. The fourth layer is investment, because we definitely think that self-employed, solopreneur, people that are trying their own business must treat their disposable income and invest, and make sure that the money is working for you and you're not working for your money or something like that Paul I think.

Paul Adams: Yeah. Oh yeah.

Shahar Plinner: And the last one is foreign and estate. Foreign and estate is just one line, just because some business owner are not exposed to any foreign or international taxation operation, but if there is any exposure to foreign or international tax, we want to touch first the foreign part because the foreign part will determine the domestic structure. But also because foreign is one of those area that we scared the most because foreign is the one item that actually can bankrupt you, and take you out of business, because of penalties of not reporting foreign operation, is based on some other criterias than tax. The other item, estate, is really important just because we believe that first, second, third generation should enjoy those tax incentive, how to move the wealth between the generation in a very efficient way. So therefore, from the present of how do you run your business from tax and cash flow all the way to the future of a estate planning, we want to make sure that all of these five pillars are taken care of.

Paul Adams: And I wanna not start with number five, but I want to give our audience a little taste of a story that you told me while we were eating lunch, I don't know, three years ago, and you shared with me how bad these foreign penalties can be if people have bank accounts or investments in other countries, or they expand operations to another country. You told me about a company that had opened, I think, it was in a European country without being too specific, and they had opened it, it was profitable. They were even paying all the taxes they were supposed to except there was a filing, the FBAR that they didn't get done.

Shahar Plinner: Yeah. So foreign bank account reporting, again. When clients are coming in, they ask us many questions around taxation, and we want to let them know that one of the things that we want to make sure is the overall compliant with their reporting. And some of the foreign forms is just reporting forms. IRS is... Or Department of Treasury is just asking you to disclose if you have foreign bank. And those specific clients, they've had $3 million in foreign banks without disclosing it. The penalties on FBAR is just something outrageous. It's 50% of your highest balance multiplied by eight. So it's about four times what you have.

Paul Adams: So yeah. Hold on that for just a second 'cause that is the astounding part. And I remember the company you gave the example of, they had a lot of money flowing through; it wasn't even all their money. They had money flowing through their accounts. They might have a small profit margin, but a lot was going through as they had big bank balances periodically. And what Shahar just said is 50% of your highest account balance that year multiplied by eight.

Shahar Plinner: Correct.

Paul Adams: The company could be statutorily bankrupt both US and foreign overnight as a result of... And that was them being totally compliant. They were doing everything they were supposed to do, literally just their prior accounting team had not made sure that that one form got complete because they weren't familiar with people with international businesses.

Shahar Plinner: Correct. And the IRS just impose penalties on forms like 5471, 5472 where you need to disclose an ownership of a foreign entity, and again, this is smaller penalties, it's only $10,000 per form per year, and if you don't pay it in three months, it's just $30,000 per form. So if you're just a business owner, had a couple of entities maybe in Malta, because it's a great country to run business, or may be in Ireland or may be you have some developers in Ukraine or in maybe in Poland, and you just did a...

Paul Adams: Woah. You mean literally, the guys who just have contracted with some Ukrainian programmers or they've got some folks working for in Pakistan but they have bank accounts there, they're not just paying money, but because to make it easier to pay their employees and contracts so they set up an account, that could subject them.

Shahar Plinner: Correct. If you're a co-signer, if you have signature authority on this account. But what we see lately is just because gig economy is growing so fast, and labor around the world is so cheap, many of the business owners that we are doing business with take the liberty and actually form a partnership in the foreign country, one, so they would have control over the team because the developer team, will proprietory an IP and if you're not partners on the ground, again, sometimes the IP is just gone or the talent is gone.

Paul Adams: Yeah.

Shahar Plinner: When you do that and you incorporate a foreign entity, now with an Ukraine partner and you have bank account with signature authority, you're subject both to the reporting of the 5471-72 forms depends on the ownership structure and the FBAR requirement if basically the entity has a bank account when you have a signature authority or you're actually a co-signer or the primary bank owner, bank account owner. So foreign... And this is before we got into the guilty tax and the tax changes done by Trump, which actually force you to pay taxes today on income generate in foreign countries. But in general, the foreign aspect and the foreign consideration, this is the number one that we touch because if it's a yes, we want to invest the time to learn to make sure that it's 100% compliant and if it's not, we just want to clean it off the table so we can move on to the action items that we actually care about.

Paul Adams: Yeah, so that's great. Well, let's jump back to tax savings. So we're thinking about those folks who have, they might be a solopreneur or they might just be somebody has a highly profitable business of some sort that's not taking them truckloads of overhead, et cetera. And I think oftentimes, they feel from a tax perspective, not that much different than when they were a high-income earning W2 for somebody else. Where do they start on the tax savings strategies?

Shahar Plinner: So as a tax accounting, tax philosophy, we, first of all, will start with the entity structure. We try to bring their business model on a white board, on a piece of paper, something that can explain us who these guys are, what they're doing and what is the best and optimal tax structure for them. We'll try to utilize any entity structure under the sun, from a single-member LLC to a multi-member LLC, to an S corporation to a C Corporation to make sure that there is the right fit to the right business operation. So first of all, in the last 10 years of mastering our tax efficiency, we learn, I don't know, probably a couple of thousands of businesses. And through this learning process, we found out that actually there was only one optimal tax structure per entity.

Shahar Plinner: So we try to narrow down and take the noise away from "Someone told me I need to be x." The discussion about "Someone told me I need to be x," is first of all say, "Hey, Paul. What do you do? This is what income you bring in. This is... Let me show you how an efficient tax structure looks like, let's say, an S Corporation and how to maintain it." So first of all, we start with the tax structure and kind of put the framework for the discussion. This is the first step.

Paul Adams: It's like the foundation of a house. What are you gonna build this on? And if you get that wrong, you could... Like if you started as a C Corp in the wrong kind of business, you could end up trapping a bunch of earnings in that could subject you to more taxation than would have been otherwise.

Shahar Plinner: Correct. So and by the way, we're doing those discussion both on the business and on the family because for us, a family that... Let's say, a business owner's, in the range of $300,000 to $2 million, is getting home net of let's say, 30% of what he makes. So let's say, on a $2 million dollar business, or a $1.5 million business, someone is taking between 450 to 500,000, definitely, we want to make sure that once this income is passing on to the family's side usually through a pass-through entities, K-1s, we want to make sure that the half a million dollar household is also efficiently operated. So on the individual level, we have different strategies than the business but we definitely see the household as a business unit making half a million dollar.

Paul Adams: One thing that we see a lot that people end up doing where they're blending their business and tax together, and I'm gonna pick on the big box financial advisors, if you will, and what we see all the time is that that advisor wants to just sell a 401k. It's the most important thing to them and they say, "Oh we should get your spouse in the business," so that they can put 18,000 dollars away in the 401k, but they miss the importance of the fact that they could be paying payroll taxes, unnecessarily for that spouse which is, it's deceiving 'cause it's only about 7% from the employee side, but it's another seven on the business side, and they could be totally overpaying on their employment taxes, all in an attempt to have some money saved on their personal taxes. And that's one that we bump into a lot and we've actually introduced some clients to you to help unwind some of those so we could do it but could you talk a little bit about what should they be thinking in these businesses in terms of how much salary to take versus how much they should take as K-1, to drive the income to their household?

Shahar Plinner: So first I want to touch about one interesting concept you just brought up, and we call it The Dream Team concept. Because the same as in a professional sports team, you have different coaches for different segment, you know, you have the defense, you have the offense, you have the special team. Same with the business, we as tax people, we can not oversee your overall financials, in order to make a smart decision, like Paul mentioned, the 401k, we can give the tax discussion if it's a pre-tax 401k, if it's a Roth 401k, if it's a post-tax, if it's a defined benefit which we can expand a bit more about defined benefit and cash balance plans, what we call the area Of 401ks on steroids.

Paul Adams: Mm-hmm.

Shahar Plinner: But for me to understand the overall financial decision, it's not just the payment of self-employment taxes, it's also what is the philosophy of the financial advisor? Are you Paul, believe that these guys need to pay the taxes today on 401k? Therefore it will be Roth. And therefore, yes, we'll give the wife some wages, and we'll pay some self-employment taxes because the overall gain of having 19,000 or 25,000 into the 401k, for the next 20, 30 years, tax-free growing, has a huge advantage for this specific family.

Paul Adams: Indeed.

Shahar Plinner: So when we're passed this dream team concept, which mean we have a discussion with the business owner and the decision makers of the business and the family we interact with the financial advisor we come as the tax guru expert into the discussion now we start evaluating based on financial decision and based on tax decision if it makes sense to compensate the spouse or the kids with some income to pay some taxes, but to gain the overall wealth for the family, which would be way greater than just to pay 15% tax on like a 10,000 dollar salary or something.

Paul Adams: Which there's some advantage to paying kids from a business if you can legitimize it, and pay them, they get some amount of that at a lower rate and they get the opportunity to do things like a Roth IRA that now has 50 years to compound?

Shahar Plinner: So with the new Trump tax changes, two things happened, one, standard deduction went up for single people to 12,000 dollars. This is the first bracket that you don't get taxed, and second, they eliminated the exemption deduction, which mean your kids on your tax return this year, give you nothing if you make over 400 to 450,000. If you make less than 400,000 dollars, and you have kids younger than 17, you can still claim the child tax credit 2,000 dollar per kid. So, there is a reason why to claim as a dependents, but kids around 15, 16, 17, or actually 17 and older, which give you no exemption, definitely can save some tax.

Shahar Plinner: And I'm, again, I have young kids, my kids are in the office all the time, I can't wait for them to be 14, 15, 16, and they can do some meaningful work for my business on social media, or admin, or do some help on the front desk and by paying them some legit salary, now they've earned income. Paul, you are correct again, for the Roth IRA for a 17-years-old kid waiting 50 years. What happen at the age of 67 or 70? Again, I believe it's a lot of tax free money.

Paul Adams: Well, in that, I heard a funny conversation 'cause back in the day, people would say, "Well I put my kids on my brochures and therefore I pay them X 'cause that's what I pay a model." And I heard a story of somebody in a conversation with an IRS agent and he said, "Well you can try that, but now that you can buy stock photos of children for 35 dollars on Getty Images of way better looking kids than your kids, good luck trying to shift five figures of income to your kids for being on a brochure." [chuckle]

Shahar Plinner: So we usually try to take kids that are a little bit older. 15, 16, 17. We want to document them, like an intern or like a season employee over the summer. But when you do that, definitely you can pay those kids a reasonable salary and create you the tax savings and for them the retirement option to grow forever, their tax money free.

Paul Adams: Well, and you talked a little bit here about, you touched on for just a moment, was the cash balance and the defined benefit plans, which are these 401Ks, I love the simple way that you put all of the complex accounting stuff, the 401K on steroids, but without the 'roid rage, And you have this ability... We just did an analysis for a client, they have about six employees and a cash balance plan was gonna allow them to deploy 200 and some thousand dollars to the owner while giving all of the employees, and the employees got more match than they were getting in the regular 401k, but they only had to give the employees a little less than 10,000 dollars of more money than they were already doing and it was incredible. 95% of the proceeds of this new plan, or 100 percent of its deductible to the owner, but 95% was lining right back in the owner's account.

Paul Adams: And then you've talked a little bit... And we've even worked on some clients together with the defined benefit plan, what's... How big of deductions have you seen clients be able to take by being able to implement as that solopreneur high income individual without employees or with maybe just contractors that they use. What's... How big have you seen that be able to go in terms of totally tax-deductible contributions to their retirement?

Shahar Plinner: So the short answer, we saw people taking all the way close to $300,000 a year per person which mean husband and wife participate in the business taking significant amount of salary can contribute almost double, so close to $550 or $600,000 of deferred compensation.

Paul Adams: And in states like California, that's like, now you're saving a quarter million dollars in taxes in that current year.

Shahar Plinner: Correct.

Paul Adams: With that contribution.

Shahar Plinner: And the comment that I get usually around the first comment that you make around I need to share with my employee first, people don't aware of such plan like defined benefit and cash balance. So the idea is, first, to share those plans because they're qualified or they're plans that most businesses can use. You just need to make sure that you follow the guideline. But the most comment is about, "Yeah, I cannot do it, I have an employees." So, what? Still you have employees or you don't have an employee if you don't have employees fine, most of all, 100% of the contribution will go your way, but with the defined benefit plan if you design it the right way and you do your census and you do your actuary activities to make the business qualify, yeah 95% of the contribution and the other 5%. One, it's a great employee retention, because again, it's just an alternative for 401K or some other deferred compensation mechanism, so it's a great mechanism to keep employees happy and in your business and second it's a tax deduction.

Shahar Plinner: So even if you had to pay $10,000 extra to keep your employees which is cheaper than to pay a recruiter to bring in a new employee into your business, you can still write the 35% off. So net out-of-pocket, it cost you six more thousand dollar while you can take home 200,000 and enjoy $70,000 tax right off. I think it's a no-brainer.

Paul Adams: And I agree, and I think there's a lot of times where I think the business owner, it's easy to forget 'cause where are they every day? Inside the business balance sheet. But what's easy to forget is where you're gonna find your actual financial independence, your work optional lifestyle, and your real autonomy of freedom in life is going to come on that personal balance sheet 'cause one day, the business won't be on your balance sheet by whatever means it's not on your balance sheet anymore, which could be everything from sale to wind down to unfortunately, sometimes failure and that personal balance sheet has to be built alongside, not instead of, but alongside the business balance sheet. Now, I think that our audience would probably like us too and I certainly could be in this all day around tax savings. Let's cut over to the second pillar and talk cash flow.

Shahar Plinner: So, cash flow and cash balance plans are actually great topic, because cash balance plans or defined benefit plans will save you this enormous amount of tax, but cash flow wise, they can be funded until September of the following year. So the IRS is giving you nine months through 2019 now to fund your 2018 defined benefit plans. So cash flow by knowing that I don't have the cash today, but commit to the tax deduction in 2018, file an extension plan, understand the sequence of events, can create the tax savings without the cash by December 31st. But knowing that I'm going to bring the cash by June 2019, I can still commit to this tax saving. So this is just one example of funding retirement, how cash flow help basically to save tax.

Paul Adams: Yeah, and I think that I don't want anybody to miss what that was. So if you happen to be on a run, you may wanna walk here for a minute to take that in, that what you can do with your accounting team is you can actually plan on the fact that even though... Let's just take 2019 going into 2020. Coming into the end of this year, that's that September meeting, that trimester if you will, of meetings. You can actually work on and plan for the fact that you're gonna put a significant amount of money into a defined benefit plan, but that money does not have to be deposited in the account until September 15th of the following year, meaning you could have all of the tax savings, say a $300,000 contribution, 35% tax rate, a little over 100,000 of tax savings, and you have until September of the following year to actually position the cash and for those of you with inventory etcetera, that means you can use that capital in your business longer before it has to be deployed to your personal balance sheet in that retirement account called a defined benefit plan. That's a great point Shahar, and I think a lot of people miss that that it actually helps with cash flow on the business side and the tax side to shift money to your personal balance sheet 'cause everybody have used those as mutually exclusive.

Shahar Plinner: So let's add another component in to the cash flow, cash balance plan and tax savings. Business loans line of credit. Business loans, today are relatively cheap and tax deduction. Business loans and lines of credit, can definitely allow the freedom of grow without having the cash. So what we... And again, going back to the planning, what's the best loophole planning? A client that comes in June and say, "Hey I have a great year this year or last year. What should they do?" I said, "Let's think about cash balance plan." And he said, "Hey I'm not sure if I have the cash." I said, "Okay let's just administrate, let's do the census, let's go through the process because we believe that it will be a great tax saving for you." Coming to the end of the year, we don't have the cash, but what we start already in June to do is approaching banks to start modifying and cleaning the balance sheet, so in case that we need the cash, I can pay the cash balance plan out of business line of credit.

Shahar Plinner: And then I can pay back the line of credit once I get my sales ramp, but at least I'm not using or losing kind of my tax deduction due to the fact that I'm short at the moment on cash flow. Paying the IRS is something that definitely fall into the cash flow. IRS is paid last. There is a great formulas or indication of how much business should pay in order to avoid some penalties. Some of the IRS penalties are so low, consider to be kind of our interest of doing business, that it's better for me to pay a half a percent interest than to pay IRS some money that can be still working well in my business.

Paul Adams: So Shahar, I don't wanna skip over what you said right there is that I think a lot of our audience when you hear IRS taxes and penalties, it's like the wives tale about somebody got totally wiped out by it or they didn't pay something. It became millions of dollars more in taxes and penalties. But what you're saying is it's almost in some cases, and for some businesses, there might be a better use of money. It's just like a loan like we would take from anywhere.

Shahar Plinner: Correct. So there is some taxes that we would not mess up with. Employment taxes must be paid every two weeks from a payroll and every quarter from your 941. And there should not be a delay of five seconds of your employment taxes. Sales tax or BNO tax, or franchise tax, taxes that are paid on sales or trust fund money that do not belong to you, that you're just the connector between the buyer and the state should not be delay, should be paid on a timely schedule with sense of urgency. But there is some taxes like Federal and State taxes that definitely can be calculated and can get you into a point where if you paid enough through the year, based on let's say last year gross sales, and if the business growing 100% for the following year, it doesn't mean that you need to pay 100% more of your taxes. There is something in between that will allow you to save cash all the way to April 15 of the following year, and it means that if you made a great year by June let's say, you can save some of your cash before eight or nine months inside the business. Let's say fund your retirement plan, your cash balance plan or pay your kids by the end of the year, or do some other things to accelerate the business growth or allow yourself some more deductions by the end of the year.

Paul Adams: I love that. So managing cash flow doesn't just mean the accounting side, which I think would be wise to be able to check with your team that you're using on the accounting end to be able to be sure that cash is flowing in the business, and doesn't leave you buying lots of inventory and not able to pay employees. But on top of it, that you can use tax to maximize cash flow through... And you know, I even look at it, although I know loopholes sound sexy to people. Loopholes are called tax code. I would say it's more like working with somebody that knows how the tax code works, 'cause you can follow the rules, and pay less in tax, you don't need... A loophole is not breaking the rule. A loophole is technically following the rule that exists in the tax code in the normal lexicon how people use it. So let's cut over to compliancy structure, pillar three.

Cory Shepherd: At Sound Financial Group we are committed to continuing to bring you sound financial bites. Hello, my name is Cory Shepherd, President of Sound Financial Group. If you are finding value in these weekly podcasts, and they are making a difference in the way you think about money, then think about what kind of a difference could be made if you engage one of our advisors to help you look at your personal finances. So what would the next step be? Send an email to info@SFGWA.com with philosophy in the subject line, and we will coordinate with you to have a conversation with Paul, myself, or one of our other advisors to share with you our philosophy of money. No one is going to close you on that call. No one is going to make you an offer to become a client. The only thing we allow our advisors to do in that call is teach, and the only thing we allow you to do is ask for an application. While, we don't accept everyone who applies to work with us, we are committed that any sound financial bites listener who wants to go deeper has the chance to expand their thinking, and walk away with new education and resources around money. So even if we find out we aren't right to work together, our team will absolutely take care of you in that call, and make sure that you have access to resources that might be of help to you.

Shahar Plinner: So 2019, we believe that accounting and tax should be cloud-based, fully automated, reconciled. The statement of why now for FinTech is so relevant for tax and accounting because both banking, credit card, and financial institutes, allowing business owners to have direct APIs of their accounting software into those system, which will eliminate a matter of error in the matter of data entry or records the data or bring the data from whoever sells offer, point of sale, payroll journal. So our goal in compliancy is first to structure a very automated and efficient accounting solution to pull all of this data from its sources, so there would be be less and less people in the means that can create some errors. Second around compliancy is about data or keeping records, and make sure that everything that you do is documented. Between your invoices, between your employments agreement, between how do you pay and move money, between the usage of cash in the business, and the employment relationship, partners agreement. Compliancy can be some small things about, Paul and I were discussing about Key Man insurance, and make sure that there is some level of understanding that if something happened to your partner, some of the operation will go south. How do you protect yourself and be compliant around hiring a partner or paying a widow, or spouse or something like that.

Shahar Plinner: So compliancy is not just the level of audit risk or filing your BNO correct. This is we take for granted. If you're doing retail activity, make sure that you have a retail study about which states you need to pay sales tax. Washington state charge sales tax on SaaS businesses, California is not. Apportionment between income in different states, people are going globally today, going nationally, don't know what is the tax regime in Minnesota or in North Carolina. Make sure that those specific things are studied. Compliancy also means for us, entity structure. Make sure that if there is an S corp, you follow the rules of S corp around distribution and one class of shares. If you're talking about C Corps, what's double taxation means for you, and if you use your personal or your business credit card for personal reasons, what it means in the matter of dividends. What is an LLC that holds real estate? So again, compliancy, it's a broad discussion, this is where our expertise coming to the table and showing you areas that you may want to dig a little bit more, because we believe this is an area of concern or area that your business should put a little bit more focus to make sure that all of the philosophy that we put in place will not be challenged or when it's challenged it won't be changed, but it will be defendable.

Paul Adams: And one other thing I just wanna encourage our listeners if you have a business, you have a bookkeeper, you have somebody that pays bills, sign checks, etcetera, especially if you reach out to GPL, one of the things I want you to be able to do is make sure that you have them comment and give you internal controls. How do you control who can transfer money, how you can move it, it's one way business owners lose far more money than they would like, and you never hear about it 'cause they're always deeply embarrassed 'cause it was a trusted employee. They went wrong with. Check with your accounting team or connect with GPL. And reminder at the end of this podcast, we've got an incredible giveaway for all of our listeners that's just courtesy of GPL, super glad that they would do it. And you'll hear about that in just a minute. Shahar, Let's talk investment. And then I wanna land on the estate piece.

Shahar Plinner: So investment is the most interesting part because it's everything. This is the most fun part about running with business owners dreams, the fact that they want to own buildings, and real estate, they want to invest in startups, they want to invest in e-commerce, in cyber. Washington state at the moment is booming around investment in cannabis business, California, Oregon, Colorado. This is a huge industry, which involve money and opportunity, and compliancy, but it's fascinating to see such a industry growing in Washington and provides such an amazing return to the investment. But it can be a very small kind of ideas about how to put some disposable income into the market and buy some stock or bond or portfolio of something that will work for you, or just a CD. How we combine investment with retirement, so investment, it's exciting area just because, again, we are and for sure the Washington State or the Northwest we're in the golden age of opportunities at the moment.

Paul Adams: Well, and the thing I think about is there's not a single entrepreneur listening this podcast today, who put themselves in a position as a founder to say, "I'd like to be in my business to be trapped by it for the rest of my life." Nearly everybody went in wanting to have a balance sheet, opportunity, freedom, and most importantly, autonomy. And if we're not transferring that money to the personal balance sheet, even if it does all of those things, real estate, startups, et cetera, but if it's all inside that same business it may not work as effectively as if you can deploy it elsewhere. And I love the play on words, when you use the cannabis business and how it's growing. Let's get on to estate.

Shahar Plinner: Just one item about the investment part, keep in mind that we only do the investment part, the tax side of it. So we're not financial advisors we're not reviewing or giving opinion, about different investment opportunities. When business owner come, we would share with him the fact that we want to see his portfolio as diverse as possible for tax purposes. If it's a hard cash money lending, and he make interest, or it's a portfolio that pay dividends, or he has ownership of stock to pay capital gain, short or long, or if he has a real estate, flips or buy and hold or syndication, or if he has an activity out of the country. We want to make sure that he understand, again, the tax savings they cash flow, the compliance of the investment, we're not investment professional that will push or advice to which type of investments. Just to be clear.

Shahar Plinner: Yeah, I love that. Well, and if that's not done well, like how many people we run into, that maybe only have the tax deferred accounts and they don't have any other type of accounts, so that they don't... Having your assets in different buckets from a tax allocation, not just portfolio allocation, gives you the ability to work with your accounting team when you're taking distributions to choose the accounts that are best for the tax regime that you're under at the time. So let's get on to the estate planning, then we're gonna wrap up and tell everybody about our giveaway.

Shahar Plinner: Sure. So, estate planning, again, in our opinion it's very short. We're just need to make sure that it's taken care of. The same as we spoke a couple of minutes before about the Dream Team concept, with the financial advisor that will help you to grow your wealth and the tax guru that will help you to save tax. We need an estate attorney, someone that can draft the documents and create the legal structure of how to protect you one, from yourself, from your spouse, from your kids, from, your creditors, but on the better way, how to help your spouse, to help your kids, and to help your partner or some other key people in your life to inherit or to get some of this amazing wealth in a most efficient way. So again, in GPL, we usually follow the directions and execute some trust tax returns, and some amazing philosophy around how to keep wealth, but we save this specific knowledge into those amazing estate attorneys around us to come up with the structure and help people basically to defend their business and families.

Paul Adams: Now, and one thing that I think could be a hang up for some folks on the call that they may not be aware of. It's one of the biggest, I think, taxes that people are not aware of, is someone who marry someone who is not yet a citizen. Can you talk about the difference between the estate tax for two married citizens and somebody married to a non-citizen?

Shahar Plinner: So we deal with a lot of relocation of people from around the world into the US and mainly into the Seattle Great Area. The different exclusions or the different provisions that a US citizen and a non-US resident have are tremendous. Today, based on the new tax regime by President Trump, each individual who is US citizen get close to $11 million of exclusion in case of death of the wealth. If you're a married couple with a good estate planning, your survival spouse can get up to $22 million of exclude from your family wealth. The foreign resident, unfortunately, the exclusion is only 60,000. So if a Israeli guy...

Paul Adams: And how much is the tax above the 60?

Shahar Plinner: It's about 40%.

Paul Adams: Just to go to your kids. So I wanna hear that example, but I wanted everybody to hear estate tax is not little.

Shahar Plinner: No, estate tax is a killer, it's not a little. And again, this Israeli guy that just purchased a $250,000 condo in downtown Seattle, which can create an amazing rent for him and the yield can be 6% or 7%, which is a reasonably nice return. From the tax perspective, we can structure such an investment with the right mechanism of mortgage and property taxes and depreciation that will cost him no tax while he ran his rental activity. But if something suddenly happened to the person and he dies, this $250,000 condo will be valued at the date of death, and if there is some appreciation, it's worth today about $300,000, the poor guy will get $60,000 of exclusion and his survival spouse or someone of the kids will have to pay 40% on 240,000. This is a huge amount of money that will probably will force him to sell its investment. So again, part of the discussion with foreign resident is how to build the structure to defend, but also how to make an estate planner or life insurance mechanism and some other LLCs protection to make sure that in case of sudden event, the family is still protected.

Paul Adams: Very good. Well, I gotta say, as always, Shahar, every time I get a chance to talk to you, it's almost hard... It's why I relate to you so much as an entrepreneur and founder first, who happens to be in the accounting business, because you always bring a ton of excitement, knowledge, awareness, and you do keep it interesting, both with the examples to make it simple and with the strategy to make it effective, which is a rare combination. For all of our listeners, here is what GPL has been willing to offer all of our clients, and that is that you can reach them at info@gplaccounting.com. Reach out to them, mention the podcast, and what you're gonna be able to do is they're willing to review and do a strategy session with you with up to two years of your last tax returns.

Paul Adams: And with those two years of tax returns, they're gonna be able to look at those, better understand your business, and give you a sense of what a tax guru thinks when they look at your taxes, maybe versus the person that you started growing up with in the business and get that, what I would say, is a powerful, not second opinion, but a true second assessment about the future that you'd want. And if you're at all concerned about emailing GPL, feel free to reach out to us info@SFGWA.com or on Twitter or Instagram or Facebook, you name it, and we can get you connected to them. But the key is, will your current accounting withstand a second opinion? And if you're worried that it might not, that's all the more reason you should be reaching out to GPL and Shahar or one of his many team will be able to connect with you and help you understand whether or not you're out of whack on any of these five pillars. So, Shahar, thank you so much for being here.

Shahar Plinner: Paul, appreciate the time. And it's really a mission for us to share our knowledge, specifically with entrepreneurs like us and make sure that most of their hard work, all of their hard work, keep in their business, and not wasted to places that doesn't need to be waste.

Paul Adams: Very good. Well, and we're glad all of you could join us through this journey talking about the five pillars and we hope that this has been a contribution to you being able to design and build a good life.

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