

## Surprising (And Legal) Tax Loopholes

**Scott A. T.:** Broadcasting from One Dallas Tower, this is Scott Alan Turner, the financial rockstar, high priest of the church of the financial truth. Here to help you get you out of debt faster, save more money and retire rich. In the studio with me is producer Katie, who enjoys hiking as long as it's not too and.... On the show today I'll be answering your questions about money, business and life. If you have a question you'd like answered on the show, visit [goaskscott.com](http://goaskscott.com).

Do you know the single biggest bite out of your income and retirement nest egg is. Is it mutual fund fees, premier investments, is it inflation, is it market timing, is it your asset allocation, is it expensive cat food. Back to that in a moment. Katie and I were driving home from dinner the other night and in the car she said, "You are so cheap." We had just gone to a nice Mexican restaurant so I didn't get the statement. I was like, "We just had a nice meal, what do you mean." She said, "You're taking the access road on the highway to save 25 cents in tolls." Yeah, it adds an extra 60 seconds to our ride home. Go through a couple stoplights. Yes. I am saving 25 or 35 cents, however much it was.

We pay, here in the great country of Texas, about \$50 a month in tolls around here. If I can avoid the toll in exchange for 60 seconds of my time occasionally, yeah, I'll often do it. I avoid the tolls. It's different than if I don't own a toll tag, use the highways and never pay the bills. That's evasion. It's not what you make it's what you keep.

You know what the single biggest bite out of your income and retire nest egg is? It's taxes. Taxes. You can avoid paying taxes, but evasion, tax evasion, that is illegal. Tax avoidance is the arrangement of your financial affairs, minimizing your tax liability, staying within the law. According to CNN there was one Texas couple who owed \$238,000 in unpaid tolls and fines. Not taxes, these are tools, for the tolls road. There were 16 drivers who owed more than \$100,000. Tax avoidance, which is legal, that's the fun one. You have no moral, no ethical, no legal obligation to pay one single more dollar than what the law requires. If you get into reading about taxes, books, websites, whatever, you'll eventually come across this quote from Learned Hand is his name, Learned Hand. He says, "Anyone may so arrange his affairs that his taxes shall be as low as possible. He is not bound to choose that pattern, which will best pay the treasury. There is not even a patriotic duty to increase one's taxes. Over and over again courts have said there is nothing sinister in so arranging one's affairs as to keep taxes as low as possible. Everybody does so, rich or poor, and all do right where nobody owes any public duty to pay more than the law demands."

Learned Hand, he was an American judge. Famous as an avid supporter of free speech and for applying economic tort law, tax law. He's noted as one of the most influential American judges to have never served on Supreme Court. That quote, he's all over the place when it comes to paying taxes. Tax efficiency is one of the shortest routes to get from where you are now to where you want to be in your finances. You should be looking for every legal way available to lower your tax bill. I love the fact that I have roads to drive on, the finest military in the world to protect me, thank you military, and an impenetrable underground facility at Area 51 to hide our visitor from another planet. Better we have them than North Koreans. I do not shed a tear when I can pay less taxes for high school band uniforms, research on the nocturnal habits of the desert fiesta rat. Hey, my tax bill has been more than I ever thought I would earn over my entire life.

This is your money we're talking about. I hope you don't let the politicians waste it on their pet projects. High school band uniforms. Take a close look at your form, the 1040 IRS form you fill out. Study the line items under the adjustments and your itemized deductions. Figure out are there any steps I can take to reduce my tax liability. You and I, we want to avoid paying as much in taxes as we possibly can. It's not being unpatriotic and it's not being

greedy. I'm pretty sure I can do a better job of managing money than politicians. I can balance a budget so I'm pretty sure of that. I'd rather handle the money myself than let them take care of it.

Before we can avoid paying taxes we have to know what kind of taxes there are so you can avoid paying them. You don't know what you don't know, so we're going to know it and then avoid it. The follow is from the book, "How To Pay Zero Taxes." Page 29. I hope you'll pick this book up. Page 29. "Taxes have been likened to a plague in a field a wheat. Yet there are several individuals earning millions of dollars who pay little or no taxes and many more who earn hundreds of thousands of dollars each year, whose tax bill is just as small." I'm going to skip ahead. "In 2012 more than 5,000,000 individual tax returns showed income of \$200,000 or more with .49% paying \$0 worldwide taxes. These people are able to avoid paying taxes by these sophisticated tax strategies devised by high priced and very professional tax planners, who guide their clients on the cracks in the federal tax code."

You either need to become your own tax expert or you need to hire a very, very good tax planner. What should you do. If the goal is early retirement, I'll tell you most of the early retiree crowd, they don't spend money on certified financial planners and have them manage their assets. Why do they do that? Why do they not do that? Cost is number one. Cost. Another reason most certified financial planners, they don't specialize in the things early retirees do, like Roth conversion ladders and stuff like that. You have to become a tax expert so you can pepper the tax planners with questions and they can guide you along the cracks.

On average, if you are an employee, not a small business owner, you're going to work the first four months out of the year to pay your taxes, roughly, roughly four months. Twelve week or 480 hours. You work 480 hours, per year, to pay taxes. The other 960 hours a year you work, well you get to keep that much, that's for someone working 40 hours a week. If you spend 480 hours to pay taxes, is it worth spending 20, 40, 80 hours to figure out ways to reduce your tax burden. Is it worth it?

I liken this to a construction worker making \$15 an hour. They're out there working, the food truck pulls up, he or she goes and buys a sandwich, chips and soda for \$10. The lunch costs him an hour of his day. Instead of getting paid for 8 hours, he or she got paid for 7. He had to make \$15, then pay the taxes on it, got to keep about \$10, which he then spent on the lunch. Could have spent 5 minutes in the morning packing a lunch for \$2 and come out \$8 ahead.

You can spend 20, 40, 80 hours, whatever, and you get to keep 9 months of your money. Maybe you get to keep 10 months of your money. Maybe you get to keep 11 months of your money. An extra \$100,000 over your lifetime. You should be excited about the prospect of flipping congress and IRS the bird.

You may have heard Warren Buffet, great investor, greatest investment ever, how his secretary pays more in taxes than he does. She's at a higher tax rate. Rich people love saying things like this because it makes us feel sympathetic to them. We don't seem as evil rich people. Well you know what? Never in the history of rich people have they ever said, "You know what, I am so upset that my secretary pays more in taxes than I do. You know what, I'm going to go write a check to the IRS right now. I'm going to make up the difference. I'm going to bump myself up into my own higher tax bracket just to help out." Never. Never.

If you feel guilty about using loopholes or have some moral dilemma, do me this solid. Take out your checkbook right now, write a check for \$100 to the IRS and in the memo, down in the lower left, write this, "Here's a little extra because I love you." No. Never going to happen. Why do we have all these stupid loopholes in tax and sanity.

Page 37, how to pay zero on income taxes, "Some of the techniques found in this book are the result of mixing complicated and convoluted tax code sections, but all of them are completely legal. Some are legal not because congress intended them to be there, we call that a loophole, but because both congress and the internal revenue service were lax in their homework in the tax code language, allowing them there. While congress writes the tax law, that law is read and interpreted by the courts. Quite often the IRS and the courts differ in their interpretation of the various code sections in their applications. The courts always win. Even if a tax effect is contrary to original congressional intent, the courts must and do support the language of the code. Such effects are the law and can be changed or eliminated only by congressional action. Until such action is taken, it is fully within the legal rights of the American taxpayer to use such code combinations to reduce, minimize, or even completely eliminate taxes. The tax code changes every year and it's 4,000,000 words. It's legal and we're under no moral obligation to pay any more, one penny more, than is necessary."

I ran out of time for my segment so I didn't even get into some of the good stuff. We're going to have to follow that up next time.

Henrique writes in to say,

**Henrique:** "I need help staying on track. I do all the things I should but then comes a week where I splurge and buy something big or make a bad financial move, like buying a new car." I used to live beyond my means, like most people. That's how you do thing. You have a car payment. You buy stuff on your credit cards, pay it off later. You live paycheck to paycheck, You're just oblivious. You just go through life thinking, "This is how it is."

**Scott A. T.:** What I've learned over many years is there's one simple test you can use to help your decision making process. You ask yourself one question, "Is this a need or is this a want." In our society and media are inundated with people who live beyond their means. We don't discuss that, even though the majority of people carries huge amounts of consumer debt. If you can ask yourself that question before a purchase, you start going down a different purchase path, "Yes I just want that, well, in light of my current situation what's that purchase going to do to my financial situation. In light of my current situation, how is that purchase going to impact my future. Will I be better off or worse. Is this something I am going to regret buying tomorrow. Am I just being sold by the salesperson or the marketers." Which happens a lot. Or if you really want me to get in your head you ask a different question. "Based on what I've heard from Scott, what would he do." You can blame me for your decisions, the good ones anyway, I don't mind.

I've learned when you want to achieve what someone has, financially, spiritually, relationships and your health, figure out what they did right and do the same thing. Sometimes if you're in a situation and you're stuck trying to make a decision, put yourself in the successful person's shoes and think about what they would decide. Gary Zukav, this is a quote from him, "Of you decide that you cannot beat a temptation, what you are really doing is giving yourself permission to be irresponsible." That can be eating an entire box of Girl Scout cookies, delicious, or buying a new fishing boat when you already own a perfectly good fishing boat. In the links to the show notes I included a link to Katie's article, "6 Tips For How To Stop Splurging and Spending Less." Don't get thrown off by the picture of the women's shoes.

Women generally tend to splurge more on clothes, shoes, purses. Men tend to splurge more on electronics, gadgets and the big toys, ATVs, boats, lawnmowers, etc. These tips, they're for men and women as well. Remember splurging is okay if you can afford it. How do you know if you can afford it. 1) you're out of debt, no credit card debt, no car loans, no medical bills, preferably no student loans. You're saving enough for retirement, 20%. You have your 3 to 6 month emergency fund and what you want to splurge on is in line with your written

spending plan and goals. You've saved up enough to pay for the purchase in cash. If you've done all those things and your goal is a new car and you pay for it in cash, buy the car. If you've done all of those things and you want to shopping spree in the mall and you buy all your clothes in cash, you want an expensive purse, expensive \$400 golf club. Buy them. If you've done all those things and you're ready to go to the beach for a week or the mountains to ski and you can pay for those trips in cash, pack your bags and have a blast. Invite me. Please. Kids are driving me crazy.

Thanks Henrique for the question. Steve asks about his wife starting an online business. Says,

**Steve:** "My wife Laura decided to start selling jewelry from Chloe + Isabel, she has a website and has to have these events at peoples home, they set up all this jewelry and people can buy it from her online store. Seems like a lot of work to make up a dollar. Do you have any suggestions we could try to get her website noticed. Laura's a person who's not easily sold on products, so to see her try this makes me think people might really want to buy this stuff. Any feedback would be much appreciated, and again, thank you for your service."

**Scott A. T.:** There are a ton of these, they used to call them home shopping parties that have popped up over the recent years. Pampered Chef is one, Scentsy where they sell the smelling candles I think, or something. Warming candles, essential oils. Chloe + Isabel, the jewelry. There are a bunch of these. Clothing parties as well. Katie's gone to a couple of those in the neighborhood. Any small business, whether it's one of these home based businesses, brick and mortar, online business, they are a lot of work to make a dollar, whether that's day one, month one, year one, sometimes 10 years out if you have a bad cycle that year. When we started the adoption website, my return to this day, even though that website's been up a couple, three years, probably \$1 an hour for the time I put into it. But that time is a sunk cost, it's gone, now with the business up and running that \$1 an hour will hopefully increase over time.

The home based businesses, Chloe + Isabel that your wife is working at, you can hustle and make money but it's always going to be legwork. You have to do marketing, sales, parties, relationships, repeat the cycle. Marketing, sales, parties, relationships. Jake the cat is telling me, "Cat toys." Another good home based business to get into, have a cat toy party.

How would I get a website noticed for jewelry. I would definitely sign up for a Pinterest course. Katie bought one a few months ago, it's \$80, which I thought was a really good deal, that was a sweet deal on an entire course. Several weeks long. Jewelry just seems like one of those perfect places for Pinterest, like food and fashion. I would just master that one thing. Pick a social media outlet that you think would fit your business, master it, and by master it I mean spend months on it becoming the best that you can be at that one thing rather than trying to do everything at once, Twitter, Facebook, Pinterest, Youtube, Snapchat, Periscope. Pinterest. Pinterest. Focus on that. Get a good course. Get that working. I think you'll find success there.

You're probably going to find the home based businesses where you go in and have these parties, it's going to be a source of supplemental income. I don't know if you're ever going to get rich off it or have employees. If you're not looking to do that, that's fine. It would be a good part time gig that you can set your own hours, run your own business, learn how it works, learn the ins and outs. Get some experience. If you want to go out and do something else later you've got that background and you haven't invested a ton of money, just your time. At the very least it's going to be a good learning experience because you'll find out real quick whether you like sales or not. If you do and you're good at it, hey, you can make good money. If not you've learned a lesson, move on to something else.

Thanks, Steve, for the question. Jessica G has a word of caution to all you fellow debit card only peeps. Her words.

**Jessica:** "I found out the hard way that if you are renting a car at an airport location but do not have a corresponding flight in and out of said airport, they will not let you rent the car without a credit card. They will let you pay with a debit card, but not that you reserve it, except Budget. Their computer systems were down tonight. It appears only Enterprise and National Alamo have this policy, all others do not institute the airport policy. Guess who is not going to be getting my business."

**Scott A. T.:** Debit cards, that was the end of her story, debit cards are not the same as credit cards. They are not. That's just another example showing you they are not. People can claim all day long there is no difference. I can give you story after story after story after story from people like Jessica that tell otherwise. Fact from fiction. I'm a huge believer in responsible credit card use. I've been on both sides of the equation, the irresponsible side and the responsible side. I want you to make the best decision for you and I'll support you whatever you choose to do. Just be aware there are airport rental policies out there if you're a debit card only person and they differ than what is allowed with a credit card.

I just rented a car from Hertz, who I've never used before but the other suppliers of rental cars, they didn't have the vehicle that I'm using for an upcoming trip. I noticed during the checkout policy they had, "Here's our debit card policy." Which doesn't impact me because I reserved it with a credit card. I figured, "I'm going to pop over to Hertz right now, as I'm recording this and read you the Hertz debit card policy directly from their website.

I'm not going to read the whole thing but, "At many Hertz locations, debit cards issued under a VISA or MasterCard which draw funds directly from a cardholder's linked bank account may be used at the outset of a rental to qualify for the rental." There are exceptions and certain states, I'm not going to list them all unless you're a special member. "Debit cards are also not accepted at the outset of a rental to qualify for a rental at selected locations in different states." Let's see, "Debit cards are not accepted to qualify for rentals to customers under 25 years of age at Hertz Airport locations in some states." Blah, blah, blah. What else. "Debit cards are accepted to qualify for a rental, in most cases, the location will perform a credit check for debit card customers to determine credit worthiness at the time of rental."

What does that mean, you have to have a credit score and you have to be credit worthy in order to qualify for a rental. Not everywhere, not every agency, this is Hertz policy and says in most cases some locations. When do you not want to find this out, when you're at the rental counter and all you've got is a debit card and no credit history and you want to go and rent a car. Hertz, off this list, kind of like Jessica's issue. Also from Hertz's policy, "In addition, the acceptance of such debit cards is contingent upon the debit cards having available funds." Well, of course, you should have the money before you can rent the car anyway, "To cover the estimated charges plus an authorization of up to \$200 more given certain conditions that will be outlined at time of rental." Once you get to the counter, they're going to tell you what those conditions are. It also says, "These funds will not be available for your use."

I mean that makes sense, if you're going to rent a car with a debit card you should have the money in your account anyway. That's fair enough, that's fair enough, but also they're going to tack an extra \$200 freeze on your account in case anything goes wrong. That's funds that aren't going to be available to you. Again, if you're renting a car with a debit card you really shouldn't be maxing out your checking account anyways, plus a \$200 to drag you down to a \$0 balance. That's certainly fair, but net net, debit cards are not the same as credit cards.

Charles needs some networking tips for entry level systems analyst position. It says,

**Charles:** "Currently I'm a unionized worker getting a decent salary, but not doing what I went to school for. Everyone tells me it's all about who you know. Any tips on networking and meeting people in the industry so that I can get an entry level position as a systems analyst."

**Scott A. T.:** Entry level is always, I don't want to say always, usually the hardest to break into, because there's so many candidates and so few positions available for those zero to two years of experience requirement. You've got your college graduates, and you've got your job hoppers and then you've got your internal people at the company that are looking to make a switch, or a move, to either up or down the ladder. Or just vert horizontally to get into a different position at work that they might find more enjoyment in.

The pool is much bigger for a smaller number of jobs, no doubt about it. Part of it is a numbers game and a time game, kind of like in sales, he or she who makes the most phone calls can end up winning. A few things, start with recruiters and the headhunters, as many as you can find. You never know when an opportunity is going to present itself in their laps and they may end up contacting you, depending on your background. Not very likely, odds are very low but do that anyway, it doesn't take much time.

Contacting your school for their job placement and apartment. Again, not very likely, but it's another base you want to cover. Applying for internships. A lot of larger companies and some medium sized companies as well offer summer internships or different internships throughout the year. Yeah, you're not going to be making much money doing that but it gives you an opportunity to get in with the company and often those internships can lead to jobs.

What about the networking side of it. Yeah, networking is very important. Depending on which study you look at or which job board or article you read in what magazine, it's all about the networking and who you know. Facebook groups, join as many as possible. Linkedin groups, they can be specific to the area that you live in, that's important. Meetups is probably going to be your best bet. Attending a meetup. I'll give you an example. I use to code, myself, and there was a monthly meeting called the "Java Users Group" the JUG meeting of short. All the Java developers, I never attended these, I just remember hearing about them, all the Java developers would get together once a month and hear a speaker on a particular topic.

We have a podcaster's meetup here in Dallas once a month. All the podcasters get together. There has to be one out there for systems analysts as well. You want to attend those and meet other systems analysts because they're probably working for companies that may be currently, or eventually, looking for more systems analysts. Even if you're not, you make those connections, you never know down the road when that person moves on from their company or their current company expands and they contact you and say, "Hey, we have an opening for three more systems analysts." Or, "I joined this new company over here, we're looking for a couple more as well, why don't you apply."

What if there is no group in your area. This can actually be a golden opportunity but it's not going to be easy. If there is no group you can create the group. You create the meetup. You're going to have to find a place to do it, you can find a free place to host a meetup. Some place. The place we have our podcast meetup, there's an office building and the room is free that it's held in. You can find people to attend on Linkedin and the Facebook groups and invite them. Then what you want to do is go find a vice president, a director, somebody that's really high up in a company who oversees systems analysts stuff, whoever does that, and can speak on a different topic and invite

them to come and talk. It's a hard road to do that but what do you think the results are going to be. If you're the event coordinator, people are going to think, "Charles, he must really know his stuff, he put all this together and he got this great speaker in here." It's going to give you the opportunity to network and meet with all those people.

It's a numbers game, it's going to take time. My friend, who has an MBA, he got laid off, it took him 12 months to find a new job. He was very well qualified in a very good industry, but it took time to do that. You just have to keep in mind, nobody stays unemployed forever. It never happens. I've never met anybody who's been unemployed forever. You thought you might not be in the position right now that you went to school for, eventually you will get there. You will get there. Thanks for the question.

Back in a moment. You're listening to Scott Alan Turner.

Hey nation, Scott Alan Turner to tell you about my good friends, Brad and Caroline. Katie is this Carolyn or Caroline. Line? You sure? Oh you talked to them on the phone. Are they nice? All right. Hey nation, Scott Alan Turner here to tell you about my good friends Brad and Caroline. If you're looking for. Hmm? Oh did I mess it up again? Line. Line. I'll write that down. Line.

Hey nation, Scott Alan Turner here to tell you about my good friends Brad and Caroline. If you're looking for a new cap, visor, scarf, doo-rag, gardening hats, ski hats, check out HotHeads. They even carry ear muffs for those chilly days. All their caps are manufactured right here in Mexico. HotHeads, found in malls everywhere. Ask for my good friends Brad or Caroline, tell them Scott Alan Turner sent you.

What are three words that describe the affluent. Frugal, frugal, and frugal. Webster's defines frugal as behavior characterized by or reflecting economy in the use of resources. The opposite of frugal is wasteful. According to Millionaire Next Door, the book, "Being frugal is the cornerstone of wealth building, yet, far too often the big spenders are promoted and sensationalized by the popular press. We are constantly barraged with media hype about so-called millionaire athletes, for example. Yes, some of the members of this small population are millionaires, but if a highly skilled ballplayer makes \$5,000,000 a year, having a \$1,000,000 in net worth is no big deal." Book continues on, "But the lavish lifestyle sells TV time and newspapers. All too often young people are indoctrinated with the belief that those who have money spend lavishly. If you don't show it, you don't have it. Could you imagine the media hyping the frugal lifestyle of the typical American millionaire."

"What will those results be. Low TV ratings. Kind of like the ratings you might find on CNBC or MSNBC or FOX Business. If you go down there or PBS Nightly News Business Hour. You go down there and say, 'Low costs, boring, index funds that you re-balance once, maybe twice, a year.' Not very good for ratings, that's for sure. Frugal doesn't mean cheap, though there are some cheap millionaires. I had a couple stories on the show, people who saved and saved and saved and saved. Were extremely frugal all their lives. Died with tens if not almost a \$100,000,000 in the bank to give away. To me that's frugal without being fun. What about doing something with that money that you could have otherwise done and done a lot of good while you were alive. Frugal's not a bad word. Spend money on what you love, be frugal on the stuff that's unimportant to you in your life."

Those are the words. That's it for this episode, I'm your host Scott Alan Turner, Rockstar Katie is my producer. All the links mentioned in the show are available in the show notes on ScottAlanTurner.com. If you have a question you'd like answered on the show visit goaskscott.com. Thanks for listening.