[Secret Revealed: How A Billionaire Is Paying a Lower Tax Rate Than You](#)

Scott A. T.: Broadcasting from One Dallas Tower, this is Scott Alan Turner, the financial rockstar and high priest of the church of the financial truth. Here to help you get out of debt faster, save more money, and retire rich. In the studio with me is producer Katie who's sick of the chickens escaping their side of the earth. On the show today I'll be answering your questions about money business family, any question you like answered on the show visit goaskscott.com.

Continuing on with our mind numbing and sleepy discussion taxes, final episode on taxes. You are jumping up and down if you even made it this far, if you even made it this far. Taxes, everything you never want to know to help you go to sleep faster. This episode, according to my show notes, there is another one coming up. Man! No, I'm wrong, this is the last one. That will be it for taxes for a while. I can't get you not, I did a big session of everything taxes that I thought could help you gain an edge on your money which involved a lot of research, reading, listening. Came across this mind numbing podcast, I think it was mine, about taxes and the host took 7 to 8 minutes just to get to the meat of the episode. Obviously he spent too much time droning on this show and it carried over into his own negative influence. Let me tell you about tax shifting for a minute.

Page 406, how to pay zero taxes, the book that we've been jumping in and out of throughout these past few shows. For example, assume you are in the 28% bracket and transfer 1, 000 dollars annual income to your son so that is taxable to him instead of to you. Immediately you save 280 dollars in taxes. Furthermore, the whole 1, 000 dollars will come tax free to a child who has no other income even if the 1, 000 dollar represents unearned income. For instance, interest. Moreover, not only can the savings be multiplied by the number of children involved, but if your son is under age 19 or they are full time students, under age, 24, you can still claim the personal exemption for him on your tax return as long as you supply more than one half of his total support.

Last time we dug into tax deferrals, this time, brief discussion on tax shifting and then we are going to wrap this whole thing up with tax conversion. Let's say I've got a 12-year-old child, so you've got a 12-year-old child and they are a social media expert, and what 12-year-old isn't, right? I can pay that child, him or her to work at my business if I've got a business and I've reduced my income tax because I now have an employee to pay and that 12-year-old is going to be in a much lower tax bracket than I am. That doesn't mean I can pay them 100, 000 dollars a year, but I can pay them a reasonable amount. Let's say I have an air conditioning service and I've got a bunch of vans as part of my company and I want to put a picture of my kids on the side of the van. I guess, who doesn't like smiling children for advertising? Everyone does. I can pay the kids for their modeling services. I've got to pay the photographer too, it's no free to lunch, but I can give them a reasonable amount of money for modeling for the van picture.

Maybe if I'm in the 25% tax bracket and turn 18 and they are in the 10% tax bracket, they do whatever they do, I can shift 1, 000 dollars to each of them and I've just saved 15% in taxes. 15%. I've just saved 15%. How many investments do you know of that return 15%? None. Your neighbor is trying to eke out a extra 0.5% return in their investments in their 401K, change of things around every week. You can pop a 15% return just by hiring your kids to do some stuff. Don't get me wrong, half percent is important if you are talking about whacking investment fees out over time. They are apples to oranges, but with taxes it's easy to see, all right, 10% reduction by shifting some money from me to my children, what the stock market does tomorrow doesn't matter. I've got a quick win by shifting money and reducing my taxes.

He might think, why the hell would I pay my child 1, 000 dollars? They are just going to blow it. How much do children cost each year? You've got clothing, food, housing, utilities, they can use a vacation, you think of it in terms of family money because it is. You just write the cheques. You shifted the money. You shift the purchasing to the child when you go cloth shopping, they bring their cash and buy clothes instead of you spending yours. It's the same money. It's the same money, but in one case it got taxed less. There is legalities in this, again, no tax expert here, the income has to be earned by the tax payer. Let's say you've got to have a business. It's gotta be legit. If you are earning 50 grand a year, you are working at Walmart, you just can't take 5 grand of it and pay it to your kids, scooping dog poop in the backyard. That doesn't work, the IRS is not going to let that fly. The kid has to earn the money. The only way they can do that is if they work for a business that you own.

Work. W-O-R-K. Work work work. That's the key. It has to be a fair and marketable rate, that's the test. You can shift your taxes to lower tax states. Other countries. When you hear about companies wanting to merge or move overseas, it's because they are trying to lower their taxes. If you've got a business entity, you move it to another state, company is bailing out of California, left and right, they are all coming to Texas, because lower taxes. Lower taxes companies do this all the time and they relocate to other states with lower tax brackets, a) for the corporation, to save corporation taxes and b) employees. Employees are saving on taxes. Shifting. Converting your location from one high state or city taxes to a low or no state income. Location that has no or lower income city and state taxes. Moving from Texas, from Georgia, save us paying 5% in Georgia state income taxes. If you are in a high tax city like New York city, moving to Florida, Arizona, Texas, during retirement saves a huge amount of taxes or shifting your tax burden.

What about tax conversion? What is Warren Buffett's secret to paying a lower tax rate than you? This is from an article, says, the oracle of Omaha in the New York Times says he claimed to be paying on 17.4% of an effective tax rate for that particular year compared to 20 workers in his office who are paying an average tax rate of 36%. He's paying half as much. In his own words, if you make money with money, as some of my super rich friends do, your tax percentage may be a bit lower than mine, but if you earn money from a job, your percentage will surely exceed mine, most likely by a lot. How is this possible? It's easy. Buffet gets his income from capital gains taxes and holding on to his investments for a long period of time. Capital gains, lower than ordinary income taxes. He doesn't take home an income or I think he may take home an income above dollar or something like that. He only pays capital gains taxes.

Riddle me this, what weighs more, a pound of feathers or a pound of bricks? They both weigh a pound. What costs more in taxes, a million dollars in long term capital gains or a million dollars in ordinary income? That's different, it's a million dollars in ordinary income. Capital gains taxes, they are lower than taxes paid on interest income so in my savings account, all is that money I own on that interest, a huge 1%, it's taxed the money marginal tax rate. I've got 100, 000 dollars for example in cash earning a 1%, made 1, 000 dollars in interest, paid 280 dollars in taxes. 20%, that's my marginal tax rate. If I've got 100, 000 dollars investments earning 1%, I'll still make 1, 000 dollars, I sell them, I'm taxed at the long term capital gains rate, if I hold them for more than a year, 15% or 20%. 150 bucks lower.

All right, I'm scooting ahead here in my show-notes. Turns out I am a big fat liar, there is no way I can get through all of this stuff today. Guess what, another tax episode coming up. I'm going to wrap this up with this conversion capital gains versus ordinary income taxes and then, yeah, there is going to be one more episode on taxes, then I promise that will be it. I just can't get through this quantity of material because it's all good stuff, all important stuff. All right, wrapping up this, if you have retirement accounts and non retirement accounts, bonds, they are going to be taxed much harder than your stock funds. Why is that? You get taxed on bond interest or any interest kicked off in your investments, like a savings account or a bank account, that gets taxed as ordinary income, outside of your retirement accounts.

That federal rate on those can be higher as almost 40%, 39.6% if you are a really high income earner versus the capital gains rate of 15 to 20% on stocks. Repeat that real quick, bonds, savings account, cash, great interest for you which is tax at your ordinary income rate if they are outside of retirement accounts. If you have index funds which are just primarily stocks, they don't kick off interest and so you get to capital gains rate which is lower, 15 to 20%, if you hold it more for a year. Why is that important? If you've got retirement accounts and non-retirement accounts, when you are thinking about how your asset allocation works, where are you going to put stuff, where the stock is going to go, where the bonds going to go. If you've got investments that kick off interest income like bonds, it's better to put them into the tax deferred accounts like your IRA or 401k or your or any of those because the interest will sit in there and you won't get taxed on it in the current tax year.

I'll walk you through an example in the second and then stocks and stock funds, mutual index, better to put those into regular taxable accounts, your non-retirement accounts. If you are doing your asset allocation, divide the stuff up, because stocks, mutual funds into funds, if they are primarily stocks. Those things generate lower taxes compared to bonds and taxes. All right, music playing, hard break, back in a moment.

Welcome back, let's finish this segment up. Here is the example, you decide on asset allocation of 50 stocks, 50 bonds, 50% off, 50 to spend to some bonds whatever. You've got enough money to max out your 401k and IRA and an equal amount to put into a regular taxable account, plain old investment account. The most tax efficient thing that you can do is to put all the bonds in the 401K and the IRA and put all the stocks in the regular tax account. You would do that because the bonds are going to generate interest every year and as long as they are in the tax deferred retirement accounts, you will not be taxed on them in the current tax year. You'll be taxed when you pull them out during retirement. If you did the opposite and had bonds in the regular brokerage account, all the interest you earned is taxed at your ordinary income rate instead of the lower, long term, capital gains rate. I'm going to repeat that again so you don't have to go back and let's do it, I'm going to elaborate on that example a little more.

Even though we are going along, I want you to get this. Break it down again, I've got a 401k and then I've got regular brokerage account. I'm going to invest 10, 000 dollars in my asset allocations is going to be 50% stocks, 50% bonds just to keep the example simple. If I put 5, 000 dollars, the 5, 000 dollars in stocks in my 401K and I put the 5, 000 dollars in my regular brokerage account in bonds, I will pay more in taxes than if I did the opposite. If I put 5, 000 dollars in bonds in my 401K because that's tax deferred and I put the 5, 000 dollars in stocks in my regular brokerage account. The reason is bonds, outside of a tax deferred account, regular or brokerage account, kick off interest every year which is taxed at your ordinary income rate, not at the long term capital gains rate which is a lower tax. Hope that makes sense. That's going to matter to you when you start maxing out your IRAs, you max out your 401K, you've got this leftover money to invest and that's the most logical place. Most people do it, it's just regular brokerage account because once you've maxed out the tax deferred accounts, availed by the government, the only place you can put it is a regular brokerage account.

When you start doing your asset allocation, how much stocks, how much bonds, think about where they are going to go because it's going to play a role in how much you pay in taxes. Alright, I lied about wrapping this up tomorrow. Promise. Tomorrow is the last day. Tomorrow is the last tax day. Justine from the long island New York is a college junior looking to get into investing. She was like,

Justine: I recently started reading through all the guides on your website and just wanted to thank you for taking your time to put up so much information. I was looking at your how to get started investing without a lot of money guide and as a college junior I'm not quite sure where I fit in. I'll be graduating in a year, I have no student debt and I have about 1, 200 dollars sitting around, not including in my emergency fund in my savings account. I don't really have a job besides working at school as a part time work study person. No 401K yet. As a beginner, I'm not quite sure if any investments I put into a Roth IRA for my savings account is taxable or not. When I open up an account with betterment and am I better off opening a regular investment account or a Roth IRA? Reading up as much as I can, but some of these topics seem to send me in an endless circle of searching with no real answers.

Scott A. T.: All right, a college junior investing. That is amazing. You are hearing from a future millionaire here. We are looking at some type of flowchart, a decision tree maybe, kind of goes like this and I meant to put a picture of this up on the website. You'd ask yourself, do I have debts? All right, yes I do. Let's pay them off first. No, save for emergency fund and then you get to the next decision, do I have 3 to 6 months emergency fund? No. All right. Keep saving it up. The answer is yes. Put away a 15 to 20% for retirement and then you say, all right, am I saving enough for retirement?

Yes or no? No, keep saving until you have that 15 or 20% goal and if you are, say yes, save up for another big ticket item. Would that be house, car, vacation, whatever is in line with your goals. The retirement savings that is a separate branch of the tree. It kind of looks like this, do you have access to a qualified employer retirement plan like a 401K, 457, 403D, if the answer is yes, you want to save up to the company match, if there is one. If the match is zero, then the answer is no. If it's not, you want to go towards what's called the Roth Array like you mentioned. Not the traditional which is your pre-tax dollars, but the Roth, because that will grow tax free forever. You get to pull out the money tax free. Because you are so young, you can almost be 100% guaranteed whenever you pull that money out in retirement, you are going to be hit with some big taxes down the line when you look at how the imperial federal government is blowing money left and right, not good at managing it, somebody's got to pay that bill.

That somebody is going to be you because you are young, smart, you are going to be rich. After that you say, all right, am I maxing out the Roth. Roth cap is 5, 500 dollars a year. If you are and you've got an employer plan, then you'd go back and max out the employer plan after that. If the answer is no, you can open up a separate individual brokerage account using your post tax dollars and you'd be putting money, the same type of thing in the Roth, just no tax benefits in doing it, no tax deductions now, no growing tax free, you pay taxes on the gains when you sell off your investments in the future situation, the decision tree it goes like this, max out the Roth, 50 of 100 bucks, put the extra into a brokerage account, plain old taxable investments. Wealthfront veteran, vanguard, any of those are good choices, you can do Roth traditional, individual brokerage, any of those places and there are multiple types of accounts.

I just pick one and place, keep all your investments for one there, makes it easier when you do your taxes and planning and figuring out stuff. Why max out the Roth first again, money grows tax free. Government is going to keep it's grabby hands off it when you retire. Again you are going to have money because you are so smart. You could be in the highest tax bracket ever in 40 years and you are going to get penalized for starting early. You are going to get penalized for becoming rich. That Roth money keeps more money in your hands. Good job, starting ahead, Catey says, party hard Justine, only one more year of school left, I can't say that I'd be a irresponsible show host, thanks for the question.

Back after the lemon commercial, your names is Scott Alan Turner. Now for those of you that are my long term listeners, you know I'm not one of those guys in the radio who promotes every product that shows up on their desk, but today I have exciting news to share. We got together as a team and the vote was unanimous. There is just weigh too much money on the table being turned away. Starting now, we are going to start promoting every product that shows up on my desk. Beginning with the fine services of quilt kitten, for all your quality needs. The fine staff at quilt kitten have an affinity for quilts and kittens, fabrics, patterns, patents, books, selling supplies, quilts and more and they have just had some great new fabric come in from mother Russia. Don't stab your own fingers with a needle, let quilt kitten do it for you.

Every year consumer reports puts out the best and worst insurance companies to deal with. You might think you go with the lowest dollar insurance company and that's a good thing, it's a good thing for your wallet until something happens and then you need somebody to cover your back, payout, that's what I'm paying all about more if you can afford it for a higher tier, a higher ranking insurance company is worthy at a cost. Here is an example just in our neighborhood. We had our roof replaced a while back due to hail damage. We have a very good insurance company which we pay top dollar for, but that's because they've got our back, it's worth the added cost. It's not like the extreme top insurance company, but it's up there, they are really good. They recommended the roofing contractors come out here and do the job for us. Those contractors came in and they have the whole job done in one and a half days. Replace the entire roof, one and a half days. The guy up the street now going on 2 weeks to get his roof replaced.

Catey and I drove by the house, it's just up on the corner, I see it almost every day, we drove by and on our way home yesterday and we see these lawn chairs sitting around in the shade and one guy is there sitting in it and catching some shade, not catching sun, catching some shade, he's on his phone, he's not working. During that 2 weeks, you know what happened, we had this massive storm come through so I have no idea what caused that additional damage or roof leaks to this individual's home, but I can almost 100% guarantee his insurance company, not one of the top tier ones, maybe they are, maybe they are not, but the roofing contractor that he was referred to earlier, maybe they found him on the cheap and don't know the story behind it, they are certainly not a top tier roofing contractor either. When you go to one of these better rated insurance companies, more than likely they are going to give you referrals to people that are going to do better work.

That's because the people that are doing the work want to maintain that relationship. That relationship is super important to them so they want to provide a good service to the customers, they want to provide a good service to the insurance company so that they get more business and keep more business. They want to keep everybody happy whereas the people that are nickel and diamond into debt they are trying to buy on the cheap, they are only worrying about the nickels and dimes because they are trying to get by on the cheap. They are not interested in the repeat business. Cheaper is not always better. Erin from New York has a niece graduating high school and he wants to help her be smarter with money.

Erin: My niece is graduating high school and I'd like to get her something that has to do with personal finances. Staying out of debt, investing, et cetera. In general just being smart around money to start with rather than trying to fix it all years and years later and also getting started with saving and investing early.

Love to start out with a small investment account and looked at spark gifts, do you have any knowledge or thoughts about that. It's a relatively new company so I'm not sure about it. Maybe a book would be better, but if I give her a book with some cash, the book would likely get tossed aside and the cash spent on the mall. Maybe not, but probably what I would have done at 18. Just trying to impart a bit of wisdom and savor all the I should haves, I seem to be muttering to myself the last 6 months. What would you recommend for a high school graduation gift?

Scott A. T.: As one of the greatest philosophers of our time once said, when you have eliminated the impossible, whatever remains, however improbable, must be the truth. That philosopher was Mr. Spark. Let's walk through everything that is not likely to work and see what's left over. You are right, you give her money. Most likely to blow it at the mall. That's what I would have done younger too as well. He gets money, I'm not going to invest this, I'm going to buy some clothes or whatever. Investments, what about giving someone investments? Probably not. It's the same type of thing. It's thrown in the drawer. Answer the question awhile back from my high school classmate of mine who's got some savings bind about the same time she graduated from college and recently just ended up cashing him in to pay off some debt with him. Hang onto him for a number of years, didn't really amount to much with him, and the investment was put to better use.

Books, you are right. Kids don't read books about investing. They are super boring, there is not a lot of exciting ones out there. That's money. It's not exciting. We are going to make it exciting. We are going to figure out how to do that. How are you going to motivate an 18-year-old? How would you do that? How would you motivate yourself or someone else? You figure out what you want. Figure out what she wants. Not in the long term though. A young person, 18, they can't comprehend age 65, 50, 45, barely comprehend 15 years from where they are. If you are talking of age, I can't think about 30, 30, I'm not even 21, I can't even drink yet or rent a car or can they comprehend?

New cars, new vehicles, travel if they like travel, trip to Europe, wardrobe, maybe that. Something tangible like that that can be saved up for in the short term. You are obviously not going to buy a car or a trip to Europe, so do we work with that? There is a story, I think it was from how to win friends that influence people, one of the people profiled in the book, there is an older gentleman, he had some nephews and he wrote them all letters. He said, "Hey nephew." He wanted to have communication with them, hear how they are doing, they would never write back so he wrote them a letter one time he's a very tricky guy, he wrote them letters, how are you doing, blah blah blah, and stuff is going on, by the way, I've included 5 dollars in this letter. You don't think, 5 dollars, it ain't much, this is written in the 1920s or 30s, this book, 5 dollars was a lot back then.

He said, there is 5 bucks in the envelope for you, but he intentionally did not send them the money. What happened was these guys, nephews, the younger guys read the letters, didn't see the money and they wrote him back. Say, hey thanks uncle, by the way you forgot to include the money. He tricked them/bribed them. Maybe not bribery, he tricked them into communicating back with them. How can you bribe/trick your niece into doing something that you think would be beneficial to her. In a nice way, we are not trying to make her mad or anything like that, buy hey niece, at the end of your freshman year, you've done such and such, I will reward you with this thing over here. Here is the carrot and here is the stick. Whatever that might be. Is it a little down payment or contribution towards a trip that she might want to save for. A dollar for dollar matching if she wants to save up for a vehicle, very common with some parents.

Say, all right, my son or daughter if you save, every dollar you save, I'll match you dollar for dollar for the vehicle so in that way I'm not going out to buy you a car myself and it gives you some incentive to save some of your money as well. You can do that with your niece up to a certain dollar amount and those are great options to think about. Something else is when someone's gone off to college, they are investing in their future. They are putting in a lot of time, a lot of effort to get a degree. They don't know it yet, but they are investing and that's the first step for most people and best, but we don't call it investment, we just call it going to school so you can better self and make more money later on, but you are paying a lot of money to go there and you are paying a lot of your time and your effort. If you explain that like you are investing. You are putting 4 years, 2 years, however long you are going to school, out of your life you are going to so that you can get a return on your time and your money later on for however much money you plan on making in whatever your career happens to be.

You get that first step of, hey you know what, niece, you are already investing. Let me tell you about this other way you can invest over here that can make you a lot more money, make you a lot more financial freedom, get you to where you want to go a lot faster, but we've got to figure out what you want to do. What about retiring in your 30s, how does that sound to you? Most 18-year-olds will think, really! I can do that? I can retire at age 30? They don't know that, but you know that because you know people who have done that. If you plant that seed and get her involved in the earlier retirement seen, the blogs, the books, whatever, that can motivate somebody because 12 years that's not a big stretch, 18 to 30 and say, you know what you can save up really hard, get your education, live a frugal lifestyle, make your money work for you, and then you are done. You are done. You can live a life of financial freedom for the next 30, 40 years.

That's tangible and that's powerful. Especially when you tie it into you are already about to invest in your future by going to the school, spending your time, your money, you are going to get a degree, let's take it a step further. You can gauge her interest in that and then maybe that wisdom to pick up some resources, books, seminars, whatever on that particular topic and take it from there. If you are not interested there is always a new person. Thanks Erin for the question.

Ever since I was a kid I never had the perfectly straight teeth I saw in magazines. I grew up without smiling a whole lot, I just hated my teeth. Then I had lemonades put in and 3 months later had the gleaming pearly whites I always dreamed about. Now I have a lot to smile about and started grinning all the time. When my husband took the garbage out, I broke into a broad grin. When my assistant handed me Starbucks, I would flash her a dazzling smile of appreciation. Short of attending an elderly aunt's funeral, I found every encounter a excuse to smile, the result, everyone around me began to smile with me, client meetings became more amicable. Negotiations became nicer. Co-workers felt more appreciated and the best results a year later, Robin went to the same dentist and now I have the happiest business partner imaginable. When you smile at others, you literally infect them with happiness. The psychologists discover this. When he had participants in with their teeth which activated the smiling muscles.

When they were smiling participants found cartoons funnier than when they weren't smiling. Translation, it's a lot easier to make your client, your boss, or your husband or wife more receptive to your ideas if you say it with a smile. That is from the book, the power of nice, how to conquer the business world with kindness. How to conquer the business world with conqueror ness, kindness, that's what it is. The power of nice. That's a short read. Maybe you can find that at the local library. Very very short read. I don't know if I mentioned this before or not, I ordered a pack of stickers off amazon, I think for a buck 50 of smiley faces. All kinds of different rainbow colors and I take 2 of them and I put them right next to my phone for when I have to answer the phone. I get to push the button so I see those smiley faces. Every time I pick up the phone.

I bought a package home so that when they wear away I'll scrape them off, replace them with new ones so that every time I pick up my phone and answer it, I've got a reminder; smile, smile before you answer the phone. It will get you in a better mood and that will resonate across the line even though someone can't see. Those are the words. You've wasted another 30 minutes of your time, 15 if you are listening to me on 2X. I thank you that's it for this episode. I'm your host Scott Alan Turner and my producer Katie. All links mentioned in the show are available if there is a question you like answered on the show, visit goaskscott.com. Thank you so much for listening.