YETO GUIDE TO TAX PLANNING FOR THE "EMERGING WEALTHY"

STRATEGIES THAT THE AFFLUENT USE TO CUT THEIR TAX BILL ARE MADE ACCESSIBLE TO THE REST OF US!

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MY MESSAGE TO YOU AND YOUR FAMILY

Our world as we know it will never be the same after the pandemic. We have lost loved ones, jobs, businesses, and the sense of normality we were used to.

Times like this not only leave a deep mark on each one of us by creating a unique social experience but especially forces us to rethink our lives and our journey on Earth.

As I reflect on the overall challenges our society faces today, from climate change to human rights, from inequality to racial justice and other major issues, I am led to believe that at the end of the day, our common humanity will lead us to a path towards unity, peace, and love.

Part of my contribution comprehends the empowerment of common people like myself to make better financial, investing, and business decisions.

That is the reason I started my business and created this tax planning guide to help you and your family pay less tax. This way you may save more towards your kids' college education, your retirement, and other financial goals.

strategies that the affluent use to cut their tax bill are made accessible to the rest of us!

I hope this guide will become your bible to saving taxes and help you have educated conversations with your tax professional.

I. WHY YOU NEED TO LEARN ABOUT TAXES

95%

of small business owners overpay taxes, whether business or personal

There are many reason to learn about taxes. But here is the biggest one: to help you keep more your money to yourself and build financial freedom.

99%+

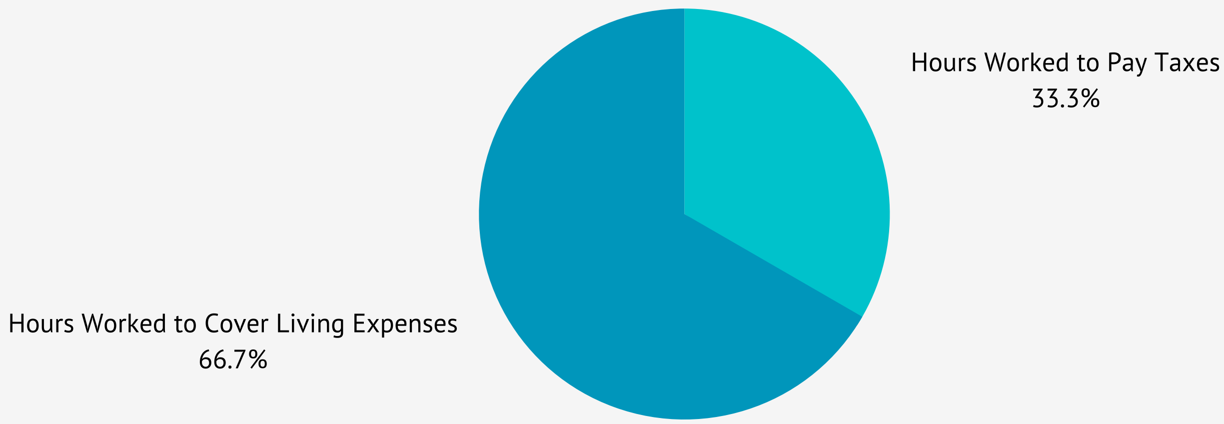
of millionaires and billionaires pay at least 5% less taxes than the average family

THE MORE TAXES YOU PAY...

The less you or more your family can keep towards retirement, college savings, investments, and other financial goals.

PUTTING IT INTO PERSPECTIVE

About 1/3 of your working hours are dedicated to paying taxes. Take back your life!



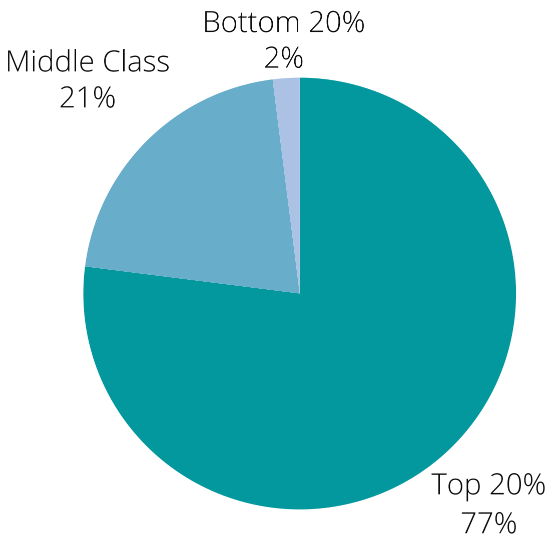
II. WHY THE TYPE OF INCOME YOU EARN MATTERS

Ordinary Income	Passive Income	Portfolio Income
Comes From: • Operating your own business • Job (W-2) • Independent Contractor (1099)	*Comes From:* • Ownership interest in private business • Real estate investment	*Comes From:* • Investment in securities (stocks, taxable bonds, ETFs, etc.

How are they taxed?

Ordinary Income	Passive Income	Portfolio Income
Taxed at highest rate Often includes: • Income tax - federal and state (in some cases) - 10%-37% • FICA taxes - 7.65%-15.3%	Taxed at lowest rate Often it is possible to completely reduce the tax bill to $0 (i.e. real estate business or investment)	Taxed at lower rate Capital gains taxable at 0%-20% rates. Better than ordinary income

III. WHY THE RICH PAY LESS TAXES



Wealth Distribution in the U.S

$98T

American families held almost $100 trillion in wealth by the end of 2018

How the rich get richer and pay lower taxes

The rich hold assets

Common assets used:

- Real estate
- Ownership in private businesses
- IPO, etc.

Army of advisors

Common advisors:

- Attorneys
- Accountants
- Tax and investment advisors, etc.

Use of leverage

To obtain benefits:

- Increase ROI
- Deduct interest expense
- Maximize returns

IV. HOW TO REDUCE YOUR TAXES LIKE THE RICH

The key to reducing taxes like the wealthy is arranging one's affairs the same way the wealthy do!

The rich hold assets

Start or purchase:

- Real estate
- Business or IPO

Protect Assets

Set-up structures:

- Legal (LLC, Corp, etc.) - limit liability
- Trust & Foundation

Transfer Assets

Pass to others:

- Retirement and estate planning (Succession Plan)

The rich follow these steps to reduce their taxes:

1. *They own businesses and investments in assets that allow them to shield their wealth and income from taxation;*
2. *They protect their wealth through the use of entities that limit their liability (in case of lawsuits) and allow them to defer paying taxes on appreciated value (possibly forever)*
3. *They plan their estate and retirement to ensure that their wealth is transferred to their loved ones at a minimum tax possible (if any at all)*

IV. HOW TO REDUCE YOUR TAXES LIKE THE RICH: EXAMPLE

The average person has a job, where they receive a paycheck. This is taxed at ordinary rates. Unfortunately, there is not much in terms of deductions-credits if you fall under this category. It is worse if you do not have expenses that qualify under the itemized deduction schedule (i.e property taxes, interest on mortgage, health care cost above 7.5% of adjusted gross income, etc.).

This is part of the reason most people do not have much tax saving opportunities.

However, when you start a business almost all of your eligible business expenses can be deductible from your income. I encourage my clients to have a side gig or invest in real estate. Better yet, to do both. This way, they can convert certain personal expenses to allowable business expenses.

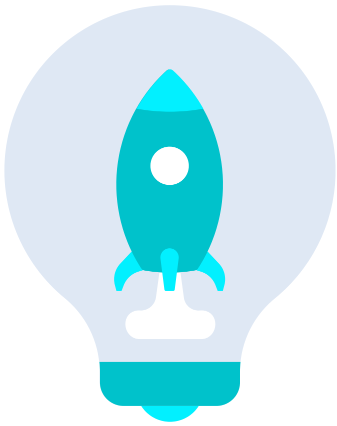
For example, if you have a website design business, you can write off office expenses, your home office, utilities, meals, transportation, medical expenses, and all other expenses incurred on behalf of or while conducting the business.

Things get even better for individuals with a spouse and children. They can put them on payroll, provide them all the benefits they can afford and write them off.

Let's put it into context. If you have a job and are filing as married filing jointly, and earning $100,000, everything else being constant, with a standard deduction you may be taxed at 22%. No option or possibility to deduct anything else.

However, if you are a business owner, you may write off almost anything, including business trips with your family, health insurance, life insurance, and educational expenses (tuition), to name a few things. In summary, you may be able to effectively cut your tax bill by 50% while enjoying a great life.

V. 10 TAX SAVING STRATEGIES: START-UP



Very few events in life are as exciting as starting a business. Despite its challenges, starting a business can also be thrilling.

The best part is that all the money you spend up to the moment you get the first customer is considered start-up expenses. Therefore, it is deductible.

General Rule: Start-up and organizational expenses are a deduction that can be claimed in the year you start your business. You can deduct up to $5,000 plus the amortization of the amount above $5,000 over 180 months on start-up expenses and organizational expenses respectively.

This includes fees you pay to lawyers, accountants, consultants, trips, market research, rent, utilities, etc. before you are operating the business.

Example 1: Mary is in the process of launching her recruiting business. She spends $3,500 to set up an LLC, advisors and consultants for market research and marketing, as well as fees for accountant set-up. The entire fee is deductible.

Example 2: John is setting up a real estate business. He spent $8,000 with attorneys, accountants, and brokers to set up the business in July. John's deduction will be calculated as follows:

A. $5,000, plus
B. [($8,000-$5,000)/180 months]*6= $100
C. Total deduction = $5,100. The remaining $2,900 will be deductible over 174 months.

Yeto Tips*: If you are planning to launch a business, make sure to keep expenses under $5,000, and start early in the year.*

V. 10 TAX SAVING STRATEGIES: HOME-OFFICE

If you have wealthy friends, you will notice that they always have a home-office. In case you are wondering, it is not for cosmetic or purely lifestyle choices.

It also is a tax planning strategy. You think the government subsidizes only low-income housing. Think again.

General Rule: There are two ways to claim a home-office deduction. You can use the simplified approach, which allows you to deduct $5.00 per sq ft up to 300 sq ft. My favorite approach is the actual method. This allows you to actually claim the amount you spend for the home office.

Here is how it works. Imagine you are renting a 1000 sq ft house, where you use 200 sq ft as a space that is *used exclusively* and *regularly* for your business. Let's say you pay $2,000/month in rent, and additional utilities, and home rent insurance costs an extra $300/month. <u>In total your eligible deduction under this method is 20% (200/1000) of $27,600 ($2,300*12months). That's $5,520 of deductions, or $1,656 on tax savings (30% tax rate)</u>

The key element to qualify for this deduction is to have a place in your house that you use exclusively and regularly for your business. This means a place in your house where you have a desk, a chair, and desktop/laptop where you use to conduct your administrative work, serve clients, prospect new clients, perform client work, make phone calls, and run your business operations.

Yeto Tips*: If you are a business owner with an office outside of your home, you can still use home-office deduction by setting up a home office. The most important point for you is to use your home as the primary place of your business.*

V. 10 TAX SAVING STRATEGIES: HEALTH-CARE

Health care tax deduction is the most under used tax strategy by taxpayers. More than 95% of Americans cannot deduct their health care expenses in their tax return. In Schedule A, you can only claim any amount over 7.5% of your adjusted gross income.

But as a business owner, you can write off your insurance costs, and all medical expenses if you do it right.

General Rule: The easiest ways to deduct your health care expenses are as follows: (1) have your business pay for your health insurance and write it as business expense (benefits). However, this works best for corporations or solo proprietorships. If your business is an LLC or an S-Corp (where you own more than 2 percent) it gets a little tricky. (2) set up a Health Savings Account with your business. All the contributions are pre-tax, and when you pay for health care expenses it is tax free. (3) Set-up a Health Reimbursement Arrangement, where your business reimburses all of your health care expenses.

Now, it is important to note that there are details about each of the strategies suggested here. It is best to read the IRS publications and/or seek help from your advisor. Unfortunately, health care deductions are challenging to deduct due to the complexity in this space. Nonetheless, a good advisor should make your life easy and help you write off 100% of your healthcare expenses.

The main idea here is to understand that there are numerous ways to deduct your health care costs. Unfortunately, the majority of Americans today do not take advantage of these strategies, and end up with unused medical bills that could have reduced their tax bill. Clients with high medical bills have been able to save ten of thousands of dollars with the strategies above. I encourage you to talk to your advisor about them.

V. 10 TAX SAVING STRATEGIES: VEHICLE

The average American family has at least two cars. This is an incredible opportunity to reduce taxes that most people miss.

If you have a job, this is not going to help you. You would need to have a business to take advantage of this strategy.

General Rules: There are two ways to write your car expenses. (1) The mileage approach, where you claim $0.65/business mile or (2) the actual approach, where you may claim all of the business portion of the actual expenses you incurred.

Example 1: The mileage approach works best if you put a lot of miles in your car per year. Great for sales people, real estate agents, or professionals who have to drive to clients to deliver service (contractors: plumbers, electricians, or landscaping businesses). If Mary, a beauty salon owner, drives to clients to do their hair, puts 25,000 miles clients, she can deduct $16,250 as business expenses. If she is at 22% tax bracket, she cut approximately $3,575 on her tax bill.

Example 2: If Marta, who is an accountant doing most of her work from her home-office, bought a $25,000 car for her business, she may use the actual approach and deduct interest pay on monthly payments, gas, repairs, maintenance, oil changes, parking, tools, and other expenses with this method. Since she does not drive much, the actual approach might be better.

Yeto Tips: *Now, if you are planning to buy a new car, lease one that you plan to use in your business, or share between personal and business, make sure to discuss with your tax advisor to help you figure out the best possible approach to maximize your deductions.*

V. 10 TAX SAVING STRATEGIES: TRAVEL

Every year Americans spend billions of dollars traveling across the country and the world. Unfortunately, most of the traveling is simply a personal expense that does not qualify as a deduction.

Here is the good news, you can make your next trip tax deductible.

General Rule: You can deduct all of the expenses you incur for your travel as long as you meet one key requirement - your travel must primarily have a business purpose. It does not matter whether it is a domestic or an international trip. *What then qualifies as a business purpose?* ***Here are a few items:*** *you must make the trip for things like meeting new or existing clients or vendors, hold board meetings, research or study new markets/business opportunities, partners, attend a conference in your industry, etc.*

Once you meet the above requirement, all of your expenses are deductible. Some example of expenses include car rental, airfare ticket, laundry, meals (100% deductible), hotel or apartment rental, and any other expense you incur.

A client loved fashion and always dreamed of going to Paris. So, I recommended starting a fashion consulting business. Then, she could go to a fashion conference or show in Paris for 7 days and claim everything as deduction. Can you imagine how thrilling her life now is?

Yeto Tips: *Here is a cool strategy: You can have your spouse or significant other, best friends, or trusted relatives be part of your board of advisors/directors. When you pay for their trip to the Bahamas or Jamaica, it will be deductible. Now, it is important to remember that the trip must have a business purpose, and that you have to work a minimum of at least 4 hours a day to qualify your trip.*

V. 10 TAX SAVING STRATEGIES: MEALS

We all need food to survive. I particularly enjoy both the cooking and the eating parts.

To the vast majority of the American people, their meals will never be deductible. But to educated business owners and entrepreneurs, it is like the government paying at least 50% of our meals.

General Rules: Deductions for meal expenses are the easiest one to meet and use. Unfortunately, most people miss these. As mentioned above, you may claim 50% of the expenses you incur for your meals before, during, or after your business hours.

Example: You can claim meal deductions if you go to lunch with a client/vendor/partner/board member and talk about business. The cost of the meal and tips are deductible.

What about groceries? This is a gray area and depends on what your business does. If you own a day care the cost of the groceries is 100% deductible. If you have a home-office and use the groceries your family purchases separately, I would recommend keeping records of the food you consume while working and have your family charge you for the meal.

Now, it is crucial to note that to you have to keep record of your meal expenses, and information about the date, purpose of the meal, and the person you had meals with. I give my clients a meals log spreadsheet. That way, we make life easy for everyone.

Yeto Tips: *So, if you are a business owner, please do take advantage of this deduction. Have your wife and children join your business as employees or independent contractors, and go out on business meetings and enjoy your meal. But make sure your expense is reasonable.*

V. 10 TAX SAVING STRATEGIES: DEPRECIATION

This is the mother of all deductions. It is a fathom expense. It does not require you to actually spend money to take advantage of it.

Simply by owning tangible assets in your business, you can claim this deduction to reduce your tax bill. Unfortunately, it is not available for W-2 people.

General Rule: This is the simplest deduction available to small business owners. However, due to its complexity, many entrepreneurs miss out on its benefits. There are different ways to claim depreciation on newly acquired tangible and qualified business assets. You may be able to claim the bonus depreciation, which allows you to claim 100% of the value of the asset placed in service. You may be able to claim sec. 179 deduction which allows you to effectively deduct more $1.02 million in assets placed in service. Or you can claim the regular deduction based on the life of the asset and IRS schedules.

Another important rule to mention here is the De Minimis Rule, which allows you to write off 100% per item that costs you less or equal to $2,500, or $5,000 if you have applicable financial statement.

For example, if you buy a new car costing $15,000, if you elect bonus depreciation in the first year, you can deduct the full amount in your taxes. Isn't that great? It is like the government paying for your car.

Yeto Tips*: For real estate businesses, depreciation is the magical ingredient that makes their ROI more attractive than most asset classes. Particular attention should be made to studying cost segregation. For more information about this, talk to your advisor.*

V. 10 TAX SAVING STRATEGIES: QBI

Qualified Business Income deduction, or QBI, is the cream at the top of taxes. Literally, the government is saying, "thank you for all of your hard work. Because of that, take this 20% off from your taxable income".

Imagine not having to pay taxes on 20% of your income. Unfortunately, only business owners can take advantage of this. Again, no W-2 people.

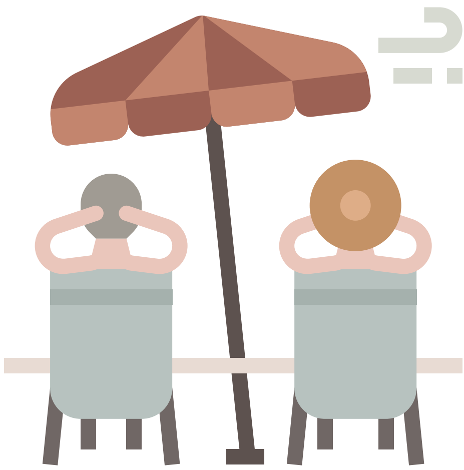
General Rule: The rules here are straightforward for those making less than $182,100 per year and are single, or $364,200 if you are married filing jointly. You get 20% off of your QBI. Above this income level and below $232,100 if you're single, and $464,200 if you're married filing jointly, there are additional calculations. Once you pass these income levels, you lose it.

So, the goal is to arrange your affairs in a way that keeps you below $182,100 if single, or $364,200 if married filing jointly. Here is an example: John, single, owns a property management business in Chicago. His business made $160,000 in QBI. John can save $32,000 from taxes right at the door. If John was an employee, the $32,000 above would have been taxed.

If you are working with a good advisor, they will be able to advise you so that you can take advantage of this benefit easily.

Yeto Tips: *Now, it is important to mention that only sole proprietorships, partnerships, s-corporations, and limited liability companies (LLCs) can take advantage of these strategies. If you are a c-corporation, this deduction is not available to you. Nonetheless, do not be discouraged. There are ways around this. Talk to your advisor, they should be able to help. Otherwise, change advisors.*

V. 10 TAX SAVING STRATEGIES: RETIREMENT



America's retirement system is in chaos. Social security may be bankrupt by 2034. Not only that, our seniors entering retirement barely have enough money to keep them floating for more than 10 years.

Knowing this, the government created retirement options like IRA and others to help us save for retirement.

General Rule: For most people, the limit for their retirement contribution caps at $6,000 annually, with a catch up provision of an additional $1,000 if the taxpayer is above 50 years old. Now, as a business owner, you may be able to leverage options like SEP, SIMPLE, Solo-401k, or even create your own pension plan. Basically, you can contribute up to $230,000 per year if you set up the right structure.

Yeto Tips: *The most critical point to remember when it comes to retirement is to use a structure that helps you get to your financial goals. Most financial advisors will tell you to put your money into a mutual fund, or all of your retirement money into a brokerage account that invests in the stock market. I advise my client to use a combination of stocks/bonds, real estate, and investing in private business or alternative assets.*

This can be done through self-directed retirement accounts. In this, your investment options will not be limited to the stock market, where your earning potential is constrained to stock and bonds performance. You would be able to invest in real estate, other people's business, commodities, or other assets you understand. Peter Thiel has a $5 billion Roth IRA. Isn't that cool?

Make sure to discuss with your advisor about the retirement options available to you, and what works best for you based on your financial goals and plans.

V. 10 TAX SAVING STRATEGIES: HIRE FAMILY MEMBERS

Most of us live within family structures. If you are married and have children, you may be able to maximize your tax deductions like few people can.

Putting your children and spouse-significant other in payroll can save you tens of thousands of dollars in taxes.

Here is the deal, you give your children a stipend. What if you can make the stipend deductible while teaching them valuable business and life skills?

That's exactly right, if you put your children who are under 18 years old on your business payroll and you pay them up to the standard deduction, their income is tax free. No FICA nor federal income taxes. Here is the bonus, you get to deduct the expense in your business as business expenses. The key is keeping good records for the work they do, the hours they work, and ensuring the compensation you pay them is reasonable.

Another strategy that can help you save taxes is putting your spouse on payroll. Particularly, if you own an LLC or an s corporation; then by hiring a spouse you may be able to provide the spouse benefits like health insurance, retirement matching contributions, and other benefits that can save you on taxes and improve your family's financial plans at the same time.

By employing this strategy, you will be able to reduce your taxes, teach your family valuable skills, and build a financial nest for your family's future. To learn more about ways to leverage this strategy, talk to your advisor.

CONCLUDING RECOMMENDATIONS

As mentioned at the beginning of this tax guide, saving taxes like the wealthy requires taking actions that the wealthy do, even at a smaller scale or level.

Building your knowledge of the tax code and rules that the wealthy use is a good starting point.

Being equipped with the basic and initial understanding of the rules and options available to you will help you have educated conversations with your tax advisor and preparer.

As we wrap up this tax guide, it is important to stress the value of continuing to learn about your tax situation and implications. Similarly important is the value of keeping good records. If you have a business, none of the strategies shared here would work unless you have (1) a good tax advisor (2) great bookkeeper or accountant (3) and, willingness for lifelong learning & education.

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