<u>NEW PROBLEM-SOLVING E-BOOK</u>:

How To Have Multiple LLC's With One Tax Return and One Checking Account - Combine With Equity Stripping –

Save Hundreds Even Thousands In Legal & Accounting Fees

Author: Albert Aiello, CPA, MS Taxation
William Noll, Esq, Cpa
Publisher: *ISU*\Information Services Unlimited
Phone: 267-273-0927; Fax 215-271-6708
Email: **isujanine@aol.com**

ALL RIGHTS RESERVED BY STRICT COPYRIGHT LAW

Copyright 2019 - All Rights Reserved. Printed in the United States of America. First edition. Copyright - Information Services Unlimited (ISU). Please respect the thousands of hours invested to research and create this intellectual property and our rights to this material. No part of this program may be sold (including on the internet), transferred, reproduced by any means, stored in any information retrieval system or transmitted in any form or by any means without the specific written permission of ISU.

This intellectual property is for YOUR USE ONLY as a single licensee and not for your clients, customers, patients, partners, business associates, family members, friends, professional advisors, NO one else; unless you are given express written permission from *ISU*\Information Services Unlimited specifically allowing who else can use this intellectual property.

Legal action will be brought against you and/or your company if you are found to have made ANY unauthorized copies of these materials, in part or in whole. Unauthorized copying is AGAINST THE LAW, regardless of intent: No matter if you make a profit or not, you are committing a serious copyright infringement crime, punishable by severe fines and imprisonment, and you may be held liable under BOTH civil and criminal law.

DISCLAIMER

These materials are designed to provide informative and useful information. Tax laws are subject to change and vary according to individual circumstances. ISU and Albert Aiello are *not* in the business of rendering legal, tax, or other financial advice. It is to be understood that tax, legal or other financial advice is not being rendered. Accordingly where the situation dictates, a more thorough research of the applicable law (or other data) may be necessary as well as the counsel of a competent professional.

The referenced sections are from ***The Renaissance Goldmine of Goldmine of Brilliant Tax Strategies Real Estate Investor's*, A Tax Reduction Software System by Albert Aiello. For more info go to https://TractionREIA.com/al**

How To Have Multiple LLC's With One Tax Return and One Checking Account, Combine With Equity Stripping – Albert Aiello

Contents

A. Using An LLC – What An LLC Protects, What It Does Not
B. The Master-LLC/Sub-LLC's Multiple Entity Structure........
C. Steps to Set Up The Master-LLC/Sub-LLC's..........................
Multiple Entity Structure..
D. Managing The Properties In The Sub-LLC's............................
E. The *Legal* Aspect Of The Master-LLC Doing............................
The Managing Instead of Another Entity..
F. Effect of Passive Loss Limits on The Master/Sub LLC
G. The *Legal* Aspect Of The Sub-LLC's Having
Title to The Properties..
H. Using the Master/Sub LLC Structure for Keepers and
Flippers – Avoiding Dealer Status..
I. Equity Segmentation? or Equity Stripping? or Both? ....
J. Combining *Equity Segmentation* with *Equity Stripping*
An Overview of How it Would Work..
K. Owning Properties In Different States Along With
Equity Segmentation – Nevada LLC's..

Conclusion – Final Comments..
APPENDIX A: Service Agreement...
APPENDIX B: Creating Earned Income For Plan Contributions.........
APPENDIX C: Combing This Structure With Land Trusts.
Al Aiello Money-Saving E-Reports and E-Books From AlAiello.com
QUESTIONS TO AL – RESOURCES FOR MORE INFO

How To Have Multiple LLC's With One Tax Return and One Checking Account - Combine With Equity Stripping -

---

A. Using An LLC – What An LLC Protects, What It Does Not

Use an LLC shield to protect your personal assets: With the proper formalities, entities (such as an LLC) give you corporate limited liability by protecting your assets *outside* of the entity, such as your home, second home, stocks, personal savings, expensive jewelry, art collection and other personal valuables.

What LLC's and other statutory entities do not protect: However, while they protect your personal assets outside the entity, these entities do not protect the property equities *within* the entity. Keep in mind that equity buildup in your properties can come from several sources: (a) Buying below market ("instant equity"), (b) upgrading your properties for more value and equity ("forced appreciation"), (c) principal accumulation from mortgage payments ("amortization") and (d) natural appreciation. So before you know it, you can have significant equity that you need to preserve. Also remember that with multiple

properties, we are talking about *each* property's equity that we need to protect from not just a legal action on that property, but from a legal action of another property in the same entity (such as the same LLC).

Example of unprotected equity: Your LLC owns five properties worth $1,000,000 with a first bank mortgage of $400,000 and resultant equity of $600,000. The breakdown of the $600,000 equity in each of the five properties is as follows: Property 1 - equity $5,000; Property 2 - equity $50,000; Property 3 - equity $145,000; Property 4 - equity $150,000; and Property 5 - equity $250,000; total equity of all five properties $600,000. If an action is brought against the LLC because of something that originated with property 1 (which only has equity of $5,000), the plaintiff's attorney can look to get a judgment against the equities of the other properties of this same LLC, namely Properties 2, 3, 4 and 5 (whose equities total $595,000), even though these properties where not the original cause of the lawsuit.

I believe the best way to protect these equities is *Equity Stripping*. Equity Stripping is a superior legal technique of using the debt of your own lender company to strip out the positive equity of your real estate with the end result of NO, or even negative real estate equity and NO target for claimants and sue-happy lawyers. With Equity Stripping, you generally only need two LLC's to protect any number of properties in any number of states (a real estate LLC and lender LLC).

{For much more about Equity Stripping refer to my asset protection home-study course, *Equity Stripping Excel*. In fact, if you have not done so, you should at least review it before reading this publication.}

While I highly prefer Equity Stripping, I know that the other more widely used strategy to protect property equity is *Equity Segmentation* (multiple entities). Equity Segmentation is the splitting up of the ownership of properties into different entities. The purpose here is to prevent a judgment against property that is not the origin of a legal action, as discussed above. For real estate you use several entities (such as several LLC's) with a lesser number of properties in each LLC instead of all of the investor's properties in one LLC. Under this premise

you ideally have a single LLC for every one of your properties. However, this will entail more legal & accounting costs along with more recordkeeping and tax reporting for each LLC. Furthermore, unlike equity stripping (*totally* removing the equity), equity segmentation still does not totally protect your property's equity because it's only "segmenting" the equity into smaller sizes, which could grow more because of property upgrading and appreciation. On the other hand, equity stripping completely removes the equity even if the equity is growing via upgrading and appreciation. Therefore, even with a smaller number of properties, with any type of sizable equity, you should use Equity Stripping, or perhaps Equity Stripping combined with Equity Segmentation.

As I discuss in my *Equity Striping Excel* course, I highly prefer Equity Stripping over Equity Segmentation because it protects you better; it is less expensive; and less time-consuming. I believe it to be superior.

But I also believe in what my students want. Despite the superb advantages of Equity Stripping and its increasing popularity, many of you (including your advisors) will still want the corporate limited liability of more than one real estate LLC, even with Equity Stripping. More than one LLC for your real estate is the more expensive Equity Segmentation.

B.The Master-LLC/Sub-LLC's Multiple Entity Structure

However there is a more cost effective way to do Equity Segmentation - *The Master-LLC/Sub-LLC's Multiple Entity Structure*. With this multiple-LLC structure there is only the need for one checking account and to file one federal partnership tax return. Here you form one master LLC-partnership that umbrellas multiple sub-LLC's, with one property in each sub-LLC (or a lesser number of the total owned properties in each Sub-LLC). This equals better asset protection because it segregates (segments) the equity of each property into the different sub-LLC entities. With *one* checking account, the master LLC collects & reports all of the rents from all of the properties, and pays & reports all the property expenses. The master LLC files *one* federal partnership (1065) tax return for all of the

properties in the sub LLC's. Each sub LLC only owns one property (or a lesser number of the total owned properties in each Sub-LLC) and does not file a federal tax return. The master LLC consolidates the income and expenses of the sub-LLC's into one consolidated partnership tax return. You still have to keep a separate accounting of rents and expenses for each property, but you only need the one master LLC checking account and only need to file the one consolidated federal partnership return. (Note: Equity segmentation can also be done for multiple businesses other than real estate).

NOTE: "Sub LLC" is not a type of LLC. It is a single member LLC just like any other single member LLC. The term "sub LLC" is only used here as jargon in the context of this multiple entity structure. The same for the "master" LLC.

NOTE: The *Master-LLC/Sub-LLC's Multiple Entity Structure* is similar but not the same as the *Series LLC*. The *Series LLC* is a recent vehicle which is one LLC that umbrellas any number of sub-LLC's (called "cells"). While it looks like it may have promise as to being very cost effective, it presently is applicable in only a few states and there are unsettled legal and tax issues. On the other hand, *the Master-LLC/Sub-LLC's Multiple Entity Structure* can be done in any state, and structured properly, is presently more certain as to its legal and tax consequences.

NOTE: If you use different partners for different transactions this master\sub-LLC structure will not be doable. In this scenario where you use different partners for different transactions, you must use separate stand-alone LLC's for each different partnership. The same for a checkbook IRA referred to as *The Preferred LLC*. For a further discussion, refer to Chapter 8 of my *Equity Stripping Excel* course.

C. Steps to Set Up The Master-LLC/Sub-LLC's Multiple Entity Structure

1.Form a two-member LLC-partnership to be the master-LLC. The two (or more) members (partners) will be the owners of this master LLC. That is they will own the shares (units) of the master LLC. For legal and tax purposes, a partnership requires two or more individuals or entities *.

[***NOTE**: If you operate as one person and not as a partnership, finding other persons or entities to be additional owners is not difficult. Another member (or other members) could be your spouse, other family members or even better, another entity that you own such as a corporation, trust and/or another LLC. You can still maintain total control by having the other owner be a non-voting member with a low ownership percentage. For instance you can use a C-corporation as a 5% non-voting member in the real estate LLC, not only to create a better legal entity structure, but to also receive the tax benefits of certain C-corp deductions, as discussed in *Goldmine* Section 5B].

This master LLC will not have title (deed) to any properties, although it will have units or shares (a member *ownership interest*) in the sub-LLC's. It will have a property checking account for all of the properties in the sub-LLC's. It could also have a back-up savings account and some office equipment such as a copier or fax machine. Again, it will not have direct title (deed) to any real estate or other appreciated assets. For tax purposes, the master-LLC files a partnership (form 1065) with the IRS. The partnership return will include all of the income, expenses and depreciation of *all* of the properties in the sub-LLC's.

A partnership is selected as the filing tax entity because partnerships gives the best tax benefits for real estate including IRS audit proofing as form 1065 is audited much less than other IRS business schedules, according to IRS tax experts.

A *Master LLC* With Sub LLC's -

You and Partner(s) Own the Shares of the Master LLC

One Master LLC Own Shares of Sub LLC's
With one checking account the master LLC collects all the rents of all of the properties and pays for all the expenses of all of the properties. Files one partnership (1065) tax return for all of properties in the sub LLC's.

Sub LLC's Own (Title) Properties

LLC 1	**LLC 2**	**LLC 3**	**LLC 4**
owns one prop.	**owns one prop.**	**owns one prop.**	**owns one prop.**

(

2) A the Sub LLC form a single member LLC for each one of your properties (or a lesser number of the total owned properties in each Sub-LLC). You will therefore have a number of sub-LLC's depending on the number of properties involved. You can ideally use a sub LLC for every one of your properties, or a sub LLC for every two of your properties, or a sub LLC for every three of your properties, etc. The sub-LLC's will have title (deed) to the properties. The single member owner of each of these sub LLC's will be the master LLC. That is, the master LLC will have a single member interest in each of the sub LLC's. Thus, the master LLC will own the units (or shares) of each sub-LLC. The sub LLC's will file no federal tax returns and will have no checking accounts (although they should have at least a savings account; this is discussed later). The sub-LLC's only notable asset will be the property (or properties) titled in the sub-LLC's name.

The single member sub-LLC does not have to file a federal tax return. *Reason*: According to IRS regulations a single-member LLC is "disregarded as an entity" for tax purposes, Reg. 301.7701. In other words, because the single-member LLC is not considered to be a *tax* entity (such as a partnership or corporation) it does not have to file an entity tax return

(such as a partnership 1065 return or corporation 1120 return). However, while it may not be a separate *tax* entity under IRS regulations, the sub-LLC is a separate *legal* entity under your state law statutes. This means that the sub-LLC should protect your assets outside of the sub-LLC including the real estate equities owned by the other sub-LLC's (provided you adhere to certain entity formalities discussed later).

(3) The partnership <u>tax</u> status will be elected only by the master LLC by filing IRS Form 8832, *Entity Classification Election*. On this form you check off the following two boxes as follows: Part 1 Type of election, **check box "a"**, "Initial classification by a newly-formed entity. Part 2. Form of entity, **check box "b"**, *"A domestic eligible entity electing to be classified as a partnership."* (This is where you elect the LLC to have the tax-favored status of a partnership and file the lesser audited IRS Form 1065). Do NOT complete Part 3. For Part 4, the effective date of the election should not be made before the date your LLC is considered to be formed under your state's certificate of the LLC's organization. As a practical matter you should use the beginning date you intend to operate your properties in the LLC assuming it's on or after your state's certificate date.

For example, assume the date of your state's certificate date is January 15, 20XX and you are ready to operate the properties titled in the name of the LLC. Then you make it that effective date - January 15, 20XX.

Under "Signatures", form 8832 should be signed and dated by all of the owner-members, or by a managing member who is authorized by local law or by the LLC's operating agreement to make the election and who represents to having such authorization under penalties of perjury. This authorized member should sign as "Manager".

Form 8832 is due to be filed for the due date of the entity's tax return plus extensions. The filing deadline for a partnership return (form 1065) is April 15th following the tax year (same as individuals). For extensions, partnerships* file form 7004 which extends the partnership filing date to October 15 (as with individuals).

[**TIP**: You should file extensions for better IRS audit-proofing. But **file partnership extensions *timely*, otherwise there could be penalties**}

You separately file and send the original signed form 8832 to the IRS service center where you file your partnership tax return. Then you include a copy of the filed 8832 with your partnership return when you file that return. Presumably you can just file the original 8832 (once) with your partnership return assuming the partnership return is timely filed including timely filed extensions as per the above. Carefully review the instructions for IRS Form 8832.

Note: According to CPA/RE Tax Strategist, *Steve Venuti*, a two or more member LLC is automatically (by default) a partnership tax entity. You therefore really do not have to file the 8832 and if you do the IRS may return it stating you did not have to because of this default provision. File it anyway! *Reasons*: (a) It's a slam dunk that your master LLC will be taxed under the more favorable flow-thru partnership tax laws including a lower audit profile. (b) Legal formality – an important part of maintaining entity formality (to help prevent the piercing of the entity veil) is full tax compliance and filings.

(4) The master LLC partnership will also apply for a federal ID number with the IRS. The sub-LLC's do not need to each have a federal ID number However, it may be a good idea that they do so for several reasons: (a) To be able to open up a savings account as an entity formality for better asset protection (as discussed later); (b) For more privacy because with a federal ID number you usually do not have to give your personal social security number; (c) A federal ID number gives more of the appearance of an "entity" (apart from you) as opposed to an individual with a social security number (not apart from you). This too could equal better asset protection (as discussed later); (d) A federal ID number may be required for your state; check this with your state.

NOTE: Some may have the misconception that having a federal ID number may expose you more to IRS audits. This is not so. If the sub-LLC gets a notice from the IRS requesting the filing of a tax return, attach this to the IRS notice, *"The LLC does not have to file a federal tax return because it is a single-member LLC and is thus disregarded as an entity for tax purposes, Regulation 301.7701"*. Mail the notice, with the above explanation, to the IRS service center that it came from or other address indicated. Keep a copy for your files.

(5) Unless you use a separate management entity (such as another LLC or corporation), the master LLC partnership will collect all of the rents from the tenants and pay all property expenses. In other words, the tenants make their checks payable to the master-LLC partnership, not to the sub-LLC. The master-LLC-partnership will manage the properties. All leases and other rental documents will be with the master-LLC as the lessor/landlord. The tenants will deal directly with the

master LLC partnership (and managing members). The sub-LLC's will not participate in any management and have no communication with the tenants who will mostly likely not even know the existence of the sub-LLC's. The same with contractors, suppliers and vendors where all communication, verbally and in writing via forms and agreements, are to be with the master LLC. The master-LLC partnership will also pay for all of the expenses of the properties owned by each of the sub-LLC's, such as property taxes, insurance, utilities, maintenance, etc. It will also pay for the "overhead" expenses that are common to all of the properties such as office expenses, telephone, travel, entertainment, internet, salaries, fringe benefits, educational publications, tools, supplies, equipment rental, professional fees, association dues, real estate seminars, etc.

While each sub-LLC does not have to file a tax return or maintain checking accounts, a separate accounting must be kept for the rents, expenses, cost basis and depreciation for each property (as you would have to do anyway if you owned the properties as a single individual filing Schedule E). You also want to do this for financial\budgeting reasons to keep control of expenses and keep track of incoming rents for each property.

This separate accounting can easily be done by the master LLC partnership keeping separate track of each property by classes or sub-categories using *Quicken* or even better *QuickBooks*. The master LLC partnership will then report the already separated rents and expenses of each property on supporting IRS Form 8825 (*Rental Real Estate Income of a Partnership*). Form 8825 has a column for each property and thus requires such separate property accounting and reporting.
Form 8825 is attached to and made part of the annual partnership reporting form 1065. The master LLC partnership will consolidate the

depreciation of each of the properties and report the total depreciation on IRS Form 4562 (*Depreciation*) and then from this schedule, the total depreciation, as one lump sum, is carried over to page 1 of the partnership form 1065, usually line 16.

The above-mentioned common expenses of all of the properties (office expenses, telephone, etc.) are also reported on page 1 of partnership form 1065, lines 9 to 20.

For state tax purposes, each sub-LLC may have to file a separate state return or report. This should not be a problem as there already has been a separate accounting for the rents, expenses, basis and depreciation of each property in the sub-LLC.

The primary "nexus" (or link) between the master LLC and the sub-LLC's is that the master LLC is the single member owner of each sub-LLC by way of units (shares). To further ensure this link there should be a written "Service Agreement" (Appendix A) between the master-LLC and each sub-LLC outlining the above tax filings and recordkeeping by the master-LLC for the sub-LLC's. If the master-LLC (instead of another entity) will also manage the properties of the sub-LLC's, then these management services should also be incorporated in this service agreement. Doing this agreement could also help to prevent any legal attacks against "piercing the veil" of these single-member sub-LLC's with the finding that the sub-LLC's are not bonafide "entities" separate and distinct from you, but instead the LLC entity is really your agent or your "alter-ego". If this were the case, this equity segmentizing would be collapsed and so would the protection of your real estate equities and personal assets.

As opposed to multiple owner entities, *single*-owner entities (such as these single-member sub LLC's), generally are more prone to getting their veil pierced thus exposing your real estate equities and personal assets to liability. **It is therefore imperative that you "dot your i's and cross your t's" by employing entity formalities**: Here is a partial list.

(1) Maintain a business bank account for each sub-LLC. If you want to avoid the bank services fees of business checking accounts, just open a savings account for each sub-LLC without having to pay bank charges.

(2) Maintain adequate capitalization. (This relates to the above.) Put at least $500 to a $1000 in each LLC savings account. If a legal action has been initiated against the LLC, you can always draw out all or some of the money for property expenses (or other "business" reasons). The master LLC should have at least three months of operating expenses as capital.

(3) Actually complete and issue the LLC certificates (units); record in the certificate register.

(4) Conduct annual documented meetings of the LLC members.

> [**TAX TIP**: Take a weekend trip to a nice get-a-way place for the meeting and deduct all travel, hotel, meals and other expenses. Enjoy tax the savings!]

(5) Maintain special minutes or resolutions for all important LLC matters such as the acquisition or sale of a property, a loan, major expenditures, a property sale, a 1031 exchange, etc.

(6) Timely and properly file all tax returns. The master-LLC will file one federal partnership return. The master-LLC or sub-LLC's may have to also file state or local tax returns. All such returns should be timely filed.

(7) Each sub-LLC should have a federal ID number. This gives more of the appearance of an "entity" (apart from you) as opposed to an individual with a social security number (not apart from you).

(8) Properly identify the LLC by having the full name on bank accounts and any accounting records*

(9) Properly identify the members and their titles. Examples, *Rhonda Roads, Member*; *Richard Rossi, Manager***.**

[***Note**: Pertaining to numbers 8 and 9 above, certain documents, such as management, contractor, supplier or vendor forms, are only to be in the name of the master-LLC, signed by a Manager. However, documents directly relating to the properties (such as purchase/sales agreements, 1031 exchange forms, loan documents, etc.) should be in both the names of the master LLC and the sub-LLC that owns the property. As part of this, the master LLC will sign as a co-debtor on any loan documents of the sub-LLC. For example, the name of the sub-LLC is Maplewood Investing, LLC and the name of the master LLC is Management Investments, LLC. The name in the document (such as purchase/sales agreements, 1031 exchange forms, loan documents) would be "*Maplewood Investing, LLC, a subsidiary of Management Investments, LLC"*. A member of the master LLC, in their legal capacity as "Manager", should sign these documents for both the master LLC and sub LLC as follows, *"Maplewood Investing,*

LLC and Management Investments, LLC by Richard Rossi, Manager". This should be spelled out in the Service Agreement, which is in Appendix A.]

(10) For each LLC, use a fictitious name such as *Diversified Property Associates* (DPA). Do NOT use your name, initials or any derivative thereof. *Reason*: More privacy.

Do these formalities for all of the LLC's, both master and subs. As for giving a name to the sub-LLC's do **not** use consecutive numbers such as *Sub 1 Property Associates, LLC*, *Sub 2 Property Associates, LLC,* etc. Instead use a different fictitious name for each one without numbers of any kind. Examples -- *Maplewood Investing, LLC*, *Ambler Property Associates, LLC*. *Reason*: If you use consecutive numbers, the LLC's may be listed in the public records all together indicating the good possibility of one owner. Not that there is anything wrong with this. It's just that you want to establish as much *privacy* as possible and make it as *difficult* as possible for wrongful creditors to find you.

(11) Last but certainly not least, each sub-LLC is to have a written *Service Agreement* (Appendix A) with the master-LLC. This provides another layer of entity formality demonstrating that the sub-LLC is an entity separate and distinct from you. While doing this is no guarantee, most legal experts will tell you that in the event of a lawsuit the more of such documentation the better.

D. Managing The Properties In The Sub-LLC's

Unless you use a separate management entity (such as another LLC or a corporation), the master LLC partnership can and will perform the management functions for the sub-LLC's such as collecting rents, paying expenses, screening\evicting tenants, executing leases, taking care of property maintenance, setting rental policies, and more (as per Exhibit I of the Service Agreement in Appendix A). However, many investors are advised to use another separate entity to manage the properties (typically a corporation). The main reason for this is that the separate entity will act as your rental property management company in dealing with tenants, contractors, suppliers, etc. In the event of a legal dispute or action from one of these (tenants, contractors, suppliers, etc.), the management company is a separate and distinct entity apart from you. Presumably, any legal action will be brought against this managing corporation and not against you or not against whatever entity that owns the property (such as the sub LLC's).
This management company will have little assets to attach in the event of the legal action. This is why it may give you additional asset protection.

But, on the legal side, for this asset protection strategy to work effectively, the management corporation must do *all* of the managing. If you, in your capacity as an individual or as a master LLC member, do any management at all, then claimants could bring a legal action against you or the master LLC, instead of the management corporation. A smart (or even mediocre) attorney may be able to prove that you or the master LLC did at least some management (or were somehow responsible) and therefore is liable to the claimant (tenant, contractor, vendor, etc.) and thus

not even bother suing the decoy (limited asset) management corporation. So, legally, this asset protection device could be flawed and is potentially collapsible.

On the tax side, there too is a potential pitiful of passive loss limitations with the IRS disallowance of currently deducting rental property tax losses. One of the most expensive tax traps for the uninformed real estate investor is the passive loss limitations depriving investors the ability to currently deduct their property loss deductions against their other income (W-2, business income, ordinary gains, etc.), with the resultant loss of tax savings and decrease in cash flow.

If this separate rental management entity does too much management (when legally it's suppose to do *all* managing), then you may be too passive and thus may not be able to currently deduct rental property losses because of the passive activity loss (PAL) limitations of IRC 469. *Reason*: In order to bypass PAL limits and deduct losses you or your spouse must perform a certain amount of *management* functions, especially landlord-tenant activities. These functions must be performed by *you* or *your spouse* (individually or as a manager-member of the master LLC), *not* another entity, even if it's your entity. Understand that the management company (another LLC or corporation) is a *separate, distinct* entity apart from you and your spouse.
(Entity separation works both ways as a double-edge sword and here the investor is on the wrong side of the sword). Thus the management company's performance of these activities is not attributable to you. There have been numerous tax court cases where investors are subject to passive loss limitations (even with the easier $25,000 loss allowance) and consequently are being denied property loss deductions against their other

income as a result of using a separate management entity. *David H. Hillman*, 4th Circuit, 4/17/01. *Madler vs. Commissioner*, TC Memo 112, 1998.

The unfortunate result is that investors are unnecessarily overpaying thousands of dollars in taxes and losing out on the investment opportunities that could have been reaped with the tax savings. (For a further discussion of side-stepping passive loss limitations, refer to *Goldmine* Section 25 and especially Goldmine Section 26.)

You do not need your own management corporation, along with its legal and tax disadvantages because of the more cost effective Equity Stripping, or Equity Segmentation, or both.

If you want to benefit from certain C-corporation deductions (such as fringe benefits), instead of making the C-corporation the primary entity owner of the real estate or a management company, make the C-corp a minority non-voting member of your master LLC, with a low ownership percentage. In this scenario, besides the tax benefits, having the C-corp as an LLC member augments asset protection via another state-registered entity as a corporate member enhancing the LLC-partnership as an *entity*, separate and distinct from its member-owners with the shield of limited liability. (For a further discussion of this superb structure, refer to Section 5-B of my Goldmine. If you want to have the master LLC create earned income for retirement plan contributions, see Appendix B in the back of this publication.)

[NOTE -- Not a Problem with a Management Trust: There is something called a *Management Trust* used for various management functions with the purpose of privatizing your property management (as so ably taught by Lou Brown). Using such a Management Trust will not cause passive loss limitations per the above, because the trust is a Grantor type trust whereby the incidents of taxation pass directly to you with no adverse tax consequences, Internal Revenue Code Sections 671 to 678.]

REMINDER: With the master-LLC doing the managing, such management functions should be included in the *Service Agreement* (Appendix A) between the master-LLC and each sub-LLC as previously discussed.

E. The *Legal* Aspect Of The Master-LLC Doing The Managing Instead of Another Entity

In the event of an action from a tenant, contractor, etc., the master-LLC will be the prime target of the lawsuit because of its management activities. The master-LLC does not have title to any properties. This will be revealed in the public records. However, the master-LLC does have a member *ownership interest* (units or shares) in each of the sub-LLC's. This is an asset of the master-LLC. However, in some states the owners are not always public record and are not registered with the state. A few states give charging order protection to single member LLC's. However, many states do not. (For more about charging order protection, refer to Chapter 4, part II, of *Equity Stripping Excel*).

But there are other effective multiple Roman Shields of protection for the master-LLC's ownership interest in each of the sub-LLC's.

Shield 1 – Equity Stripping: As discussed in my Equity Stripping course, the Lender LLC files a UCC-1 lien on the members ownership

interest (shares) of the real estate LLC as additional security for the equity stripping loan from the real estate LLC to the lender LLC. Under the Uniform Commercial Code, the lender LLC files the UCC-1 financing statement with the appropriate recorders offices.
These filings and recordings state that the asset (your real estate LLC member interest) is collateral for the ESE loan obligation. Like a mortgage or deed of trust, a properly recorded UCC-1 form gives notice to the world that the asset (your real estate LLC membership interest) is encumbered and no one can touch the asset until the loan obligation is satisfied. When combining Equity Stripping with Equity Segmentation, the lender LLC can file an UCC-1 lien on the master LLC's ownership interest (shares) of each Sub LLC.

Shield 2 – A Trust: Transfer the master LLC's ownership units (shares) of the sub-LLC's into an estate planning/asset protection trust. One such trust could be a revocable living trust (RLT), where the trustee will be different than the grantor of the trust. This gives you more privacy along with probate avoidance on your LLC membership interest as an asset in your estate. But RLT's do not give real asset protection. However, there are other types of estate planning trusts, such as the *Life Estate Trust*, that also give privacy and asset protection. Transferring your LLC shares to such a trust is very effective protection for these shares. For more about the Life Estate Trust, email us, with your VIP code, for a special report, titled "LIT07".

Shield 3 – Nevada LLC: The master LLC can be in the state where you live. However for better privacy it can be a Nevada LLC. This is because this LLC will own no physical real estate, just paper assets in the way of its ownership units (shares) in the sub-LLC's. For a further discussion see part K of this publication.

F. Effect of Passive Loss Limits on The Master/Sub LLC Structure

Again, if you are too passive you may not be able to currently deduct rental property losses against your other income because of the passive activity loss (PAL) limitations of IRC 469.
Reason: In order to bypass PAL limits and deduct losses you or your spouse must perform a certain amount of *management* functions, especially landlord-tenant activities. These functions must be performed by *you* or *your spouse* (individually or as a manager-member of the master LLC), *not* another entity, even if it's your entity. As per my recommendations, not using a separate management entity will help you to sidestep passive loss limits. But what about the master LLC doing the managing? This should not be a problem because the master LLC-partnership owns the sub LLC's while you own the master LLC. The passive loss provisions apply to individuals regardless of whether they engage in a passive activity directly or through a partnership or LLC, IRC 469(a)(2)(A). Thus, for pass-through entities such as general partnerships, limited partnerships, and, here, LLC partnerships, the PAL provisions are applied *individually* to each partner or member. Moreover and again, the single member sub LLC's are disregarded as tax entities, Reg. 301.7701. The tax status lies within the master LLC partnership which is owned by you (and any partners) and it is you as the partner-member (as Manger) who can incur the necessary amount of business and management participation to be active enough to deduct property tax losses under IRC 469. (For a further discussion of side-stepping passive loss limitations, refer to *Goldmine* Section 25 and especially *Goldmine* Section 26.)

G. The *Legal* Aspect Of The Sub-LLC's Having Title to The Properties

If you follow the multiple shield strategy of this publication of having the Nevada master LLC's ownership shares of the sub-LLC in an asset protection trust; plus the owner privacy laws of Nevada; plus the master LLC doing all of the managing, the sub-LLC's should not be very visible. Despite all of this, anything is possible. It could be discovered that title to the property, which is the target of the action, is in the name of the sub-LLC. Here, a layer of protection is that the other properties in the other sub-LLC's should be protected.

However, under the Roman Shield Strategy another mask for privacy is for each sub-LLC to have title to their property in a land trust (which is further discussed in Chapter 5 of the *Equity Stripping Excel* course). And the best shield to protect the equity in the sub-LLC is Equity Stripping. See parts I and J of this publication for combining Equity Segmentation with Equity Stripping.

H. Using the Master/Sub LLC Structure for Keepers and Flippers – Avoiding Dealer Status.

Being tagged as a dealer could be a financial disaster because you are subject to the highest ordinary income tax rates, plus Social Security taxes, other employment taxes and possibly alternative minimum taxes, or 50% or more of your profit. Moreover, dealer profits (cash or paper) are immediately taxed in full and cannot be tax-deferred in any way including not being able to use a 1031 exchange, seller installment sale reporting, a self-directed IRA, certain trusts or any other tax deferral

strategy. Being tagged as a dealer can wipe you out! But just because you start to flip properties does not mean you are a dealer. Based on numerous cases (including a Supreme Court Case, *William Malat*), actual IRS audits, and extensive research, with planning, even a large number of quick sales (in one year) can avoid costly dealer status.

Consolidated Entity Approach: This leads us to this dealer avoidance strategy of the consolidated entity approach whereby the keepers and non-dealer flippers are in one real estate LLC entity. Why do it this way? With this "investor" position, we are instead consolidating the keepers and flippers into one entity where the keeper *investment intent* is dominant over the primary intent to sell as per the decisions of higher tax courts (*William Malat; Municipal Bond Corp*). That is, the sales intent of the flippers is buried by the investment intent of the keepers. Moreover, the profits from the flips support the investment necessities of the keepers. (This is elaborated in my newly expanded *Statement of Investment Intent* from my *Goldmine* course).

Separate Entity Approach: This cannot happen with a separate legal entity for keepers and another separate legal entity for non-dealer flippers. With this separate entity approach, If the flippers are by themselves in a separate legal entity (not with rental keepers) then the IRS is in a strong position to assert dealer status because it could be argued that the flippers (by themselves solely as resale flippers) are held primarily for sale to customers and are of first importance, *William Malat v. Riddell*, 383 US 569, 1966. That is, the sales purpose is dominant, *Municipal Bond Corp*, 341 F2d 683, 1965. (Underlined emphasis added for dealer intent). Using a separate entity for non-dealer flips is like waiving a big sign, "Hey IRS I'm dealer, tax me to death!" I

hope this gets this important point across because if it does, you avoid dealer status and save thousands every year!

Using this dealer-avoidance strategy with the master/sub LLC structure. Do NOT use one sub-LLC for just flips, otherwise you defeat the purpose of the above consolidated entity strategy for avoiding costly dealer status. Each sub-LLC will have at least one keeper or perhaps more (but still a lesser number than the total properties owned by the investor). What should be done is that different flips should be done in different sub-LLC's in accord with the consolidated (keeper/flipper) entity strategy for avoiding costly dealer status.

One exception to this - Use the master LLC for a limited number of "paper" flips where the profits are used for the *investment* needs of the master LLC. Paper flips are where, instead of transferring a deed to a property, only paper is transferred which could be an assignable sales agreement, option, note or mortgage. In other words you never go on the title (deed) to the property; you instead just "assign" the paper for a profit. The reasons why I make this exception of having the master LLC do these on a limited basis are: (a) The master LLC is not taking title to any property; just paper which is being quickly disposed of; (b) If the master LLC is a Nevada entity there could be more privacy to such transactions. (c) Provided the profits are used for the investment necessities of the master LLC (such as working capital), these flips should be *investment*, *non*-dealer transactions as per my newly expanded *Statement of Investment Intent* from my *Goldmine* course (which also has a full blown discussion for avoiding dealer status).

I. Equity Segmentation? Or Equity Stripping? or Both?

Just as stand-alone techniques by themselves, *Equity Segmentation* or *Equity Stripping* are powerful asset protection strategies (with Equity Stripping being superior). However, combined they are awesome, but perhaps overkill. That is, you should generally do one or the other with my definite preference being Equity Stripping because it is simpler and less costly than Equity Segmentation, yet very effective. Despite this, there will be those who will prefer Equity Segmentation to Equity Stripping. The reasons for this that I have heard from people is either they have a natural dislike for debt (even the controlled debt of Equity Stripping; or it's "new" to them; unsure if legal (even though it is); or they just like the *safety* of the multiple entity structuring with Equity Segmentation. And of course there will be those who want both Equity Segmentation and Equity Stripping typically because they have significant equity to protect However, even besides significant equity, there is a situation that I believe you should combine the two. This is where you own different types of properties with different levels of risk. For example, suppose you own the following three different types of real estate: (1) Five rental houses, (2) a multi-unit apartment building and (3) a commercial property. Even with using Equity Stripping (debt) on these properties, you may prefer to use three separate LLC's for the three different types of properties as follows: The first LLC for the five rental houses, the second LLC for the multi-unit apartment building and the third LLC for the commercial property. The primary reason is that it is a great combination. You are **combining** Equity Segmentation and Equity Stripping for awesome formidable protection.

Combining *Equity Segmentation* with *Equity Stripping* – An Overview of How it Would Work

Before reading this part, first review the *Equity Stripping Excel* course. To do the combination, another stand-alone LLC will be needed to be the lender LLC who will make the loans to each sub-LLC with a Demand Promissory Note and Mortgage (or Deed of Trust) with each sub LLC (the lender LLC as lender and each sub LLC as the debtor). Understand there will be separate loan documents (note and mortgage) with each sub LLC. Where there is more than one property in each sub LLC these will be blanket loan documents again with separate loan documents with each sub-LLC. For additional security, the lender LLC can also file a UCC-1 lien on the master LLC's ownership interest (shares) of each Sub LLC. As previously discussed, this gives even more asset protection. The master LLC should be on the loan documents as a co-debtor and therefore be obligated for several reasons (a) The master LLC will be deducting the loan's imputed interest on its tax return, form 1065(to deduct interest there must be an obligation); (b) When applicable, will pay off the debt or make any required principal payments from its checking account (again there must be an obligation); (c) is allowing its ownership shares in the sub-LLC's to be additional security via a UCC-1 lien per the above (again there must be an obligation); (d) To help create the "nexus" (or link) between the master LLC and the sub-LLC's.

K. Owning Properties In Different States Along With Equity Segmentation – Nevada LLC's

First off, owning properties in different states entails more complexity, but can be more simplified with Equity Stripping as discussed in my *Equity Stripping Excel* course (Chapter 9). When using Equity Stripping with the one real estate LLC, the preferred less expensive way is to form the real estate LLC in the state where you own the most properties. For other states where you have properties, you register the real estate LLC as a foreign

entity in these other states to qualify to do business in these other states and in order to have the limited liability shield of the LLC in these other states. However, with Equity Segmentation you are using multiple LLC's anyway and therefore using an LLC in the state where each property (or properties) are located is an appropriate viable option. The LLC's in the different states where each property (or properties) are located would be the sub-LLC's. (Remember, "Sub LLC" is not a type of LLC. It is a single member LLC just like any other single member LLC. The term "sub LLC" is only used here as jargon in the context of this multiple entity structure). Because this master LLC/sub LLC structure is primarily a federal tax arrangement, using sub LLC's in different states will not impair its use, except that there may be different state filings for the sub LLC's in the different states. (Remember, owning properties in different states entails more complexity but could be profitable for those who do it right from an investment perspective.)

Nevada LLC's . Unless you own properties there, you generally do not want to use Nevada for the sub-LLC's holding the property. *Reasons*: First off, it will <u>not save you state income taxes</u> because if your property is *physically located* in the state with the income tax, then property taxable income is taxed in that state. There is because there is a link or nexus from the property to the state of its physical existence. With the flow-through Master LLC-partnership the state income tax liability flows first to your federal 1040 and then to your individual home state tax return (unless your home state does not have an income tax such as Florida). Otherwise, you still have this taxable flow-through even if you have a bank account in the other state such as Nevada.

If you want to use Nevada for its more favorable LLC statutes (especially privacy) you still have to register the Nevada LLC as a foreign entity with the Secretary of State in the other non-Nevada state to qualify to do

business in this other state where you physically own property. There goes your privacy! Moreover, for property located in another state, to take advantage of the more favorable LLC statutes of Nevada, will entail additional set up and annual costs to maintain a base of operations in Nevada.
(The above would also pertain to Wyoming, which too does not have an income tax and has more favorable LLC statutes but for properties located in Wyoming, which may even be more favorable than Nevada).

But do consider a Delaware, Nevada or Wyoming LLC for the Master-LLC. The master LLC can be in the state where you live. However for better privacy it can be a Delaware, Nevada or Wyoming LLC (with Delaware being the best state). This is because this LLC will own no physical real estate, just paper assets in the way of units (shares) of the sub-LLC's and perhaps other paper investments. There is also not the necessity for foreign entity registrations because the note will be physically relocated in Nevada or Wyoming. Therefore, unlike physical real property, taking advantage of the more favorable Delaware LLC laws will be fairly easy and inexpensive. Such a paper asset can easily be transferred (even by wire) to a Delaware entity because they are not physical assets like real estate. You will still need a Delaware, Nevada or Wyoming service company* to maintain the paper asset but not nearly to the degree of physical real property. There will also be the need for a bank account. Other LLC-friendly states are supposedly South Dakota and Utah. If you already live in one of these states even better; then the Master LLC could be in your home state.

You can still combine Equity Stripping with Equity Segmentation in relation to multi-state owned properties. For a further discussion of the combination, see the prior two sections of this publication. For a further

discussion of just using Equity Stripping (without Equity Segmentation) for multi-state owned properties, see my *Equity Stripping Excel* course (Chapter 9).

Conclusion – Final Comments

In my *Equity Stripping Excel* course I state that Equity Stripping is far superior than Equity Segmentation (multiple entities) because it is less expensive, less time-consuming and more effective in protecting all of your equity. Remember, unlike Equity Stripping (*totally* removing the equity), equity segmentation still does not totally protect your property's equity because it's only "segmenting" the equity into smaller sizes, which could grow more because of property upgrading and appreciation. Despite this you or your advisors may still prefer Equity Segmentation with the structure of more entities with corporate limited liability protecting properties not in the LLC that are not the origin of the lawsuit. But hopefully for those who do like Equity Segmentation, that they combine it with Equity Stripping, perhaps overkill, but formidable, awesome, unparalleled asset protection. Either way, just using Equity Segmentation by itself, or with the preferred combination with Equity Stripping, the Master/Sub LLC structure will save time and money with one master checking account and one partnership tax return.

APPENDIX A: Service Agreement

INSTRUCTIONS

The Service Agreement is between the master LLC and each sub LLC outlining the master\sub LLC arrangement. So if there are four sub-LLC's there will be four of these service agreements between each of the four LLC's and the one master LLC. This is no big deal because the only item that has to be changed in each agreement is the name of the sub LLC in paragraph 2. The primary purpose of the Service Agreement is to create a link between the master LLC and sub LLC's as an integrated legal economic unit and as an entity formality to help prevent any legal attacks against "piercing the veil" of these single-member sub-LLC's.

SERVICE AGREEMENT

1. DATE: ____________________20_____(Insert date of formation of the LLC's)

2.PARTIES: This agreement by and between

____

(Insert name of Master LLC)
(hereinafter referred to as "Master LLC"), and

____

(Insert name of Sub LLC)
(hereinafter referred to as "Sub LLC"), and

3. INTENT: It is intended that the Master LLC and Sub-LLC be linked together as one integrated legal unit in the acquisition and ownership of investment properties.

4. OWNERSHIP AND TITLE: The Master LLC will have an ownership interest (units) in the sub-LLC and will act as the parent company to the Sub-LLC. The Master LLC will not directly have title to any property. The title of property will be in the name of the Sub LLC.

5. TAX FILINGS AND REPORTING: On behalf of the sub-LLC, the Master LLC will file a federal tax return – partnership form 1065 with its own federal ID number. The Master LLC will report all income and expenses of the Master LLC and Sub LLC on this tax return and any state or local returns. Because the Sub LLC is a single member LLC, the Sub LLC will not be required to file a federal tax return (partnership form 1065) as per Regulation 301.7701. The Master LLC will also file any state and local tax returns, unless the sub-LLC is required to do so, then the sub-LLC will file such state or local tax returns. The Sub-LLC will have its own federal ID number.

6. BANK ACCOUNTS: The Master LLC will maintain its own bank accounts to pay for expenses of the Master LLC and Sub-LLC and deposit income and other receipts of the Master LLC and Sub-LLC. The Sub-LLC will maintain its own bank account, which can be a savings account.

7. MANAGEMENT: On behalf of the Sub-LLC, the Master LLC, with its managing members (“Managers)”, will manage the property of the Sub-LLC as per the *Management Activities Checklist* in Exhibit I which is part of this Agreement. In doing so the Master LLC will comply with the active or material participation requirements of Internal Revenue Code Section 469.

8. DOCUMENTS: Management documents and forms are to be only in the name of the Master-LLC. This would include documents and forms related to contractors, suppliers and vendors. Documents directly relating to the properties (such as purchase/sales agreements, 1031 exchange forms, loan documents, etc.) are to be in both the names of the Master LLC and the Sub-LLC. A member of the Master LLC, in their legal capacity as manager, will sign these documents for both the Master LLC and Sub LLC. For example, the name of the sub-LLC is Maplewood Investing, LLC and the name of the master LLC is Management Investments, LLC. The name inserted in the document would be "*Maplewood Investing, LLC, subsidiary of Management Investments, LLC"*. A member of the master LLC, in their legal capacity as "Manager", will sign these documents for both the master LLC and sub LLC. For example, *"Maplewood Investing, LLC and Management Investments, LLC by Richard Rossi, Manager"*.

8. SIGNATURES & NAMES: INTENDING TO BE LEGALLY BOUND, SIGNED & AGREED TO BY:

____

Master LLC

____

Sub-LLC

Exhibit I: *Management Activities Checklist* (Is an integral part of this Service Agreement, Paragraph 7)

1. Analyze the rental market, including vacancies
2. Analyze type of tenant (quality-wise) the property will attract (within fair-housing)

3. Analyze if the current market supports raising rents
4. Analyze if cosmetic improvements can be made for higher rents
5. Analyze if structural improvements can be made for higher rents (eg: redo floor plans)
6. Analyze if rents can be increased by catering to certain types (within fair-housing)
7. Check for any special tenant programs (such as Section 8 or assisted housing)
8. Market the property for rental
9. Show the property for rental
10. Decide the rental terms for tenant leases
11. Take, accept and process tenant applications
12. Thoroughly screen tenants by interviewing them
13. Thoroughly screen tenants by checking prior landlord and job references
14. Thoroughly screen tenants by checking out where they live talking to neighbors
15 Approve tenants. In accord with fair housing rules
16. Disapprove prospective tenants in accord with fair housing rules
17. Prepare the leases
18. Review leases with tenants
19. Move-in processing
20. Move-out processing
21. Clean & prepare units for rental
22. Collect rents
23. Handle any tenant eviction
24. Handle any other tenant problems
25. Initiate new rental & tenant selection policies (in accord with fair housing)
26, Review to reduce turnover costs via vacancies with better management
27. Create management efficiency by separating\transferring utilities to tenants
28. Create management efficiency by looking to use unutilized space (eg: basement, attic)
29. Review additional sources of income from storage facilities
30. Review additional sources of income from laundry facilities
31. Review additional sources of income from vending machines
32. Review additional sources of income from parking
33. Review additional sources of income from optional upgrades (2nd TV, computer)
34. Review additional sources of income from other sources (eg: maid service)
35. Do or discuss renovations for property expansion
36. Hire a management company or resident manager
37. Fire management company or resident manager
38. Hire & recruit maintenance personnel
39. Fire maintenance personnel

40. Supervise the resident manager, maintenance personnel & other mgmt. personnel
41. Approve all capital or repair expenditures for management efficiency
42. Decide who makes, or is to be responsible for repairs, maintenance & improve
43. Initiate\review strategies for property security, safety & sanitation
44. Create management efficiency with a program of preventative maintenance (PM)
45. Review any property maintenance and service contracts (heater, exterm., etc.)
46. Set up purchasing procedures for maintenance supplies & materials
47. Shop & purchase for maintenance supplies & materials
48. Review the reserve for the replacement of improvements, appliances, etc.
49. Personally inspect the property for maintenance & management efficiency
50. Personally talk to the tenants for maintenance & management improvement
51. Review the insurance needs of the property for management efficiency
52. Reduce operating expenses (via APOD) without loss of property quality or safety
53. Review & update overall property management & operational procedures
54. Review property management/tenant tracking software programs
55. Prepare and update the resident's management newsletter or handbook
56. Read *MR. Landlord* and other property management publications
57. Attendance at management seminars, conferences, boot camps and cruises*

APPENDIX B: Creating Earned Income For Retirement Plan Contributions. With the master-LLC partnership, you can even create earned income eligible for retirement plan contributions even without a separate management company.

Let me explain this further. For many full-time (or almost full-time) real estate investors, their sole source of income is rents, interest, and gains from investor property sales (This is the type of passive income that would come from our master LLC partnership). But this type of passive (unearned) income does not qualify for retirement plan contributions to IRA's and Keogh's, SEP's or Simple IRA's. However, the service fees received by a management company is earned income and is eligible for all of these plan contributions. So what the investor does is form a separate management company, especially when they have numerous properties. From the rent income of the properties (which is not earned income) the real estate LLC

entity pays the management company a fee (which is earned income) for various services the management company performs such as collecting rents, selecting tenants, property accounting, etc. Consequently, the earned income is created as a basis for making retirement plan contributions.
(Keep in mind that this earned income is subject to Social Security taxes; but again is also eligible for valuable retirement plan contributions).

However, you still can create such earned income with your master-LLC partnership (or any partnership for that matter), without forming a separate management company (along with it's previously discussed potential legal and tax pitfalls). Such earned income is created by the master LLC-partnership paying you (and/or the other partners) something called a "guaranteed payment" which is a payment that is made without regard to partnership income. Such payment is ordinary earned income to the recipient-partner, IRC 707(c); IRC 61(a). The payment is deductible by the partnership, IRC 162(a); IRC 707(c). (Note: In an LLC-partnership, the members are the partners.)

To be a guaranteed payment it should *not* be based on partnership income or a percentage of partnership income, Reg. 1.707-1(c). It should be in the form of a straight fee for specific services rendered by the partner to the partnership such as accounting, bookkeeping, maintenance, contract work, marketing, consulting, etc. An invoice should be submitted by the partner to the partnership. A 1099 should be filed by the partnership to the partner if the income is $600 or more. The guaranteed payment is deducted by the partnership on page 1 of the partnership return (form 1065) on the line that says "Guaranteed payments to partners". A nice thing about the guaranteed payment is that it does not have to paid in the form of a salary. This avoids the costs and paperwork of withholding taxes and filing payroll reports. The individual partner reports the guaranteed payment as "other income" on page 1 of their individual 1040 (usually line 21). If the individual partner is under

the social security base amount, they must also report the guaranteed payment on IRS Schedule SE and pay the applicable social security taxes. However and again, while the partner is paying social security taxes, this guaranteed payment is earned income and the basis for valuable retirement plan contributions to IRA's as well as to SEP, Simple or Keogh plans. Unlike corporation salaries, which are mandatory, partnership guaranteed payments are optional. What a winner! The guaranteed payment arrangement should also be incorporated in the partnership LLC operating agreement.

APPENDIX C: Combing This Structure With Land Trusts.

Placing the deed of each property in each LLC in a land trust for privacy protection is another effective Roman shield of protection. A land trust gives you important financial privacy by masking ownership of your properties. But land trusts do not give you the statutory corporate limited liability of an LLC. If the trust is unmasked, and you, personally are the beneficiary, your assets are exposed. To obtain the corporate limited liability of an LLC, the beneficiary should be each of the Sub LLC's for each land trust as follows:

Property 1 Land trust 1	**Property 2** Land trust 2	**Property 3** Land trust 3	**Property 4** Land trust 4	**Property 5** Land trust 5	**Property 6** Land trust 6
]	]	]	]	]	]
Sub LLC 1 as beneficiary	Sub LLC 2 as beneficiary	Sub LLC 3 as beneficiary	Sub LLC 4 as beneficiary	Sub LLC 5 as beneficiary	Sub LLC 6 as beneficiary

As with other asset protection vehicles, land trusts must be done properly. Don't depend on most attorneys; they simply don't know how.

Get the Power Elite Trust documentation here:

https://TractionREIA.com/al

ALL RIGHTS RESERVED BY STRICT COPYRIGHT LAW

Copyright 2019 - All Rights Reserved. Printed in the United States of America. First edition. Copyright - Information Services Unlimited (ISU). Please respect the thousands of hours invested to research and create this intellectual work and our rights to this material. No part of this program may be sold (including on the internet), transferred, reproduced by any means, stored in any information retrieval system or transmitted in any form or by any means without the specific written permission of ISU. Legal action will be brought against you and/or your company if you are found to have made ANY unauthorized copies of these materials, in part or in whole. Unauthorized copying is AGAINST THE LAW, regardless of intent: No matter if you make a profit or not, you are committing a serious copyright infringement crime, punishable by severe fines and imprisonment, and you may be held liable under BOTH civil and criminal law.