MY MILLIONAIRE FRIENDS EXPERT CALL: GARRETT SUTTON

Participants of this teleclass are Sheri McConnell (SM); Garrett Sutton (GS); and various Audience Members (AM).

SM: Hello and welcome! This is Sheri McConnell, founder and president of My Millionaire Friends dot com. Excuse me. And that's www.my-millionaire-friends.com. And as many of you know, we are going through a coaching program right now. I believe we are in Week Nine. But we are also having – some weeks we are having speakers on that I felt were really important to have on during this program. And this week, we have a person that I first heard over at Melanie Benson Strick's program, and was so impressed, I wanted to have him in this program. I really felt that he would add so much to this program by including him here.

And what he will be speaking on is the business structures. And he's going to into detail in lots of areas on that. And the topic this week is those Millionaire Business structures. Garrett, if it's okay, I would like to tell them just a few things about you and make sure they know where your Web site is.

GS: Sure! That would be great!

SM: He is an attorney and bestselling author, and in case you didn't know this, he is also a co-writer with Robert Kiyosaki's *Rich Dad, Poor Dad* series and you're an advisor over there and quite involved in their company. And you're also the founder of Sutton Law Center and you have some partners and a lot of people with your firm and you deal with lots of different areas. Garrett will be a resource. And you have a number of different Web sites. What is the other one where you do your radio show and –

GS: www.successdna.com. If you go to Success DNA, you can hear our radio show which is called *Wealth Talk America*.

SM: Exactly. And that one I find completely stimulating. When I get over there, I end up spending way too much time there! So this man – my point was having him tell you about that site as he's going to be a resource for you. We've been talking about people to have on your team in this program. I really want you to sign up for his newsletter and stay in touch for when you need his services, when you're ready for them because I was just really happy to find you and really glad that Melanie had you on over there so I could!

The other Web site and the Web site that definitely would be a resource for them today is www.corporatedirect.com and they've been having lots of questions in the program so far. And I've been saying, "Okay! Well, ask Garrett that when he's on that week. Because I'm not qualified to answer that question." So I want to dig right into the content you have and then at the end, I would love to try to take ten minutes at least and try to answer some of their questions.

GS: Absolutely! That's fine.

SM: Okay, great! So let's dig right in and let's just jump into the entity structures. And you can take it away.

GS: Well, in terms of entities. We need to understand that they don't teach this in school. It's not something we're born with. So you have to get the information yourself or with one of your advisers. And I always, like Robert Kiyosaki advise putting together a team of people. You don't need to know everything about corporations, or accounting or such, you just need to have a good team. But what we're going to do today is talk about the basics of incorporating so that you can have a leg up on what you need to know to protect your assets, save on taxes and build business credit.

Now in terms of entities, I like to frame it as the "good, the bad and the ugly." And this is an easy way to remember these, so if you're taking notes, the bad entity, the one you do not want to use is, ironically, the easiest one. It's a sole proprietorship. A sole proprietor is very easy to start. You just basically start doing business in your own individual name. The problem is, it's really very bad for you to start as a sole proprietor because you have no asset protection. If there's a claim against your business, not only can someone reach of all of your business assets, all the assets and money that you have as a sole proprietor. But they can reach all of your personal assets as well. Your bank account. Any real estate that you have. Any equity in real estate, rather. So you don't want to start out as a sole proprietor.

Now the ugly entity is the general partnership. And this is liability times two. Because not only are you responsible for your own actions, personally responsible. But you're personally responsible for your partner's actions. So, an example would be: You and a partner start a business. As general partners. And you don't file anything with the state. You just do it on a handshake. A handshake to go into business is basically all you need to form a general partnership.

And you and your partner have different ideas about, for example, advertising. Your partner wants to engage in a television contract to advertise the business. It's going to cost $20,000. And you say, "Absolutely not. I do not want to sign that contract." And you're a thousand miles away. You're out of town and your partner signs the agreement. Even though you said “no” to it and you were out of town when it was signed, you are equally responsible with your partner for that contract. So you don’t want to do business as a general partnership. That is the ugly entity.

The good entity – there are four of them. We have a C corporation and an S corporation. They are both corporations. The C corporation is taxed differently than the S corporation. The C corporation is taxed – you have a tax at the corporate level. So in other words, money comes into the corporation. The corporation itself will pay a tax. And then when you flow profits through to the shareholders, you’ll pay a tax again. And it’s two taxes on the same dollar of income. So a lot of small businesses do not use the C corporation and rather they use the S corporation. And we can go through some of the differences. The bigger differences between C and S corporations later.

But for right now, the C corporation gets taxed at the corporate level and the shareholder level. The beauty of the S corporation, is you are only taxed once. You’re taxed at the shareholder level. So that money comes into the company. You’ll pay yourself a salary and payroll taxes. But then the profits can flow through to you without a corporate tax. And it ends up on your personal return and you’ll pay taxes just once. So that’s the advantage of the S corporation, it’s called “flow through taxation.” And a lot of small businesses use the S corporation.

Now the other two good entities for business are the LLC and the limited partnership. And I like these entities as well. We don’t see them formed as often for small businesses. The S corporation is probably used 80 percent of the time in my practice for small business. The LLC has merits. It’s a flow-through tax vehicle like the S corporation. It has good asset protection. But some states, for example – California. Will not let you use a LLC if you are a licensed professional. So if you’re a doctor, a lawyer, even an owner of a hair salon where you have to be licensed as a beautician. You can’t use the LLC for professional activities in some states.

The limited partnership is also a good entity. You don’t see it being used in business that often. Because with a limited partnership, you have to form two entities. Remember, we said the general partner is personally responsible. In a limited partnership, you have two types of partners. You have a general partner and a limited partner. The general partner, once again, is personally liable for everything that happens in the limited partnership. So the way around that is to form a corporation to be the general partner. So you have to form two entities, whereas with the LLC and the S-corp you only need one entity.

I really like the LLC and the LP, the limited liability company and the limited partnership for use in real estate. It has great asset protection and it has the flow through benefits of taxation and you see people investing in real estate through LLCs and LPs. You do see people utilizing S corporations for operating a business. And one of the big advantages of the S-corp for business is you can pay yourself a reasonable salary. And as you know, on salary you have to pay those darn Social Security taxes. And if you own the business, that amounts to 15.3 percent of your income, up to $102,000 as of this year.

So if we can minimize those Social Security, those payroll taxes as best we can, we're much better off. Let's be honest. The system is near-bankruptcy. Many people who are younger will not see the benefits of those payroll taxes they're paying. We don't want to get in trouble with the IRS. We want to pay our fair share. But we don't want to go overboard on paying payroll taxes. The beauty of the S-corp is, you pay yourself a reasonable salary and then we can flow through any extra as profits to you without paying payroll taxes.

So you'll look at using an S-corp for your small business. And again, the only difference between the C corporation and the S corporation is how they're taxed. They are both corporations. You'll both, for each one, you'll file articles of incorporation with the Secretary of State. To get the flow through taxation with the S-corp, you have to file a form 2553 with the IRS. If you don't do that, you're automatically taxed as a C-corp. And again with the double tax you have with a C-corp, that may not be the best entity for your business. But by filing the form 2553 with the IRS, and our firm can do this for you, you will be able to get the flow through taxation benefits.

So those are the good, the bad and the ugly entities for business. I do not suggest that you do a sole proprietorship. Many CPAs will tell you, "Well, you're not making enough money in your business. It's going to cost you some money to incorporate. You're not making enough money, just be a sole proprietor." That, for me, is bad advice. You have a CPA in that case giving you legal advice. And, you know, don't ask me to do your taxes as a lawyer, but I will not – you know, I really have a problem when CPAs give legal advice.

The issue is not how much you're making in the business. The issue is how much do you have to protect. You have a family. You have personal assets. You need to protect those assets from any claim. And by operating as a sole proprietorship, you're just exposing all those assets to a future claim. So it's not how much money you're making in the business but what your future is. And, you know, your future is bright. You're entrepreneurs. You're going to be successful in what you do. So we need to protect your future by setting up a corporation for you to conduct your business through.

So, Sheri – I've gone on for about ten minutes there. So hopefully that gives people a basic introduction.

SM: Oh, it does. And I know that they are very stimulated on the call. I mean, we've talked a lot about mindsets and we talk about behaviors. And the mindset is to think bigger and to think far ahead, long term.

GS: Right.

SM: The behavior. It's like that Nike commercial, just do it! Just get these things done. Don't let fear stop you. You're either in a business for a hobby or you're going to do this for real.

GS: Right. And I like working with your companies, Sheri and we're offering a discount if people mention your company. They get $100 off the formation of a corporation or an LLC. We provide a higher level of service. You can get a corporation done for $99. But you won't get the level of service. You won't get all the documents you need. We're there to answer the phone, answer your questions and get you into the right entity right at the start. So, I encourage your listeners to check out the Web site and we'd be happy to assist them in getting the right entity and get it set up right at the start.

SM: And just to remind everyone, I actually have that link at the bottom in the "Resource" section on your member log-in page so if, you know, you get to the point when you're ready to do this and I hope it's very soon, that information is there for you. And just to tell you, I've been a non profit before. And then I dissolved it and became a sole proprietorship again and now I did an umbrella S-corp corporation and I used your services to do that. So I've had other people do this in the past before I found you and I did, I had a really great experience. I used one of your people, Darla –

GS: Darla's great!

SM: And she's very, very helpful and I have the book here that is going to keep me from breaking the corporate veil, is that how you phrase it?

GS: Yep. Piercing the corporate veil. We don't want that to happen.

SM: Piercing. There you go! So, again, if you have any questions. I know that I was able to call up and you sent me an information packet and had account representatives, I guess, is what you call them –

GS: Right.

SM: There to answer your questions. So I had a really easy time going through the process. I was telling them yesterday on their coaching call, it's just money and paperwork. So just do what you need to do to get these things done. And, you also do ongoing pieces that we can pay you for. Which for me, is huge. Because I want to delegate these things out because I'm not in the business of doing these things. So I want to delegate them to the people who are the experts. So I see that I'll be using your services on an annual basis to get some of those pieces done that I have to get done every year.

GS: Great. And many we should mention this, Sheri. You mentioned piercing the corporate veil. It's important to know that you're setting up a corporate for limited liability protection. If someone sues you in your business, they can reach what's inside of the company and we don't keep a lot in there. But they can't get your other personal assets. However, if you fail to follow the basic formalities, someone suing you can say that you didn't follow these formalities and thus we're going to pierce through the corporate veil of protection and reach your personal assets.

Now. The consequences are pretty dramatic, of having the veil pierced. The formalities to keep the veil up, to keep your protection in place are not that difficult. You need to pay the state their annual filing fee every year. You need to have minutes, rather, a meeting once a year and you write down the minutes of that meeting and put them in your corporate book. You need to make sure you have a separate corporate bank account and file the separate return for the corporation.

You also need to provide corporate notice to people. When you sign a contract, you're going to sign as president of the company. You're not going to sign "Jane Doe." Because someone could say, "Look. I thought I was doing business with Jane Doe as a sole proprietor." Instead you'll sign that contract "Jane Doe, President of XYZ Corporation." And that puts people on notice that they are dealing with a corporation. But if you follow these formalities. If you pay the state each year. If you hold the meeting and have the minutes. And do the separate bank account, separate tax return. You sign the corporate papers the right way. You're going to be protected. No one's going to be able to claim that they should be able to pierce the corporate veil and reach your personal assets. So it's not hard to do. It's just you need to do it.

And as Sheri mentioned, when we form an entity for you, we give you a book with the first corporation called *Bulletproof Your Corporation*. And it shows you how to prepare the minutes each year. We give you a template. You can type in it and do your own minutes. Now, many people don't do the minutes. It's like going to the dentist. It's something they put off. And so we have a service where for $150 a year, we will prepare your minutes for you and make sure that they are current. But you don't have to use that service. We give you the book. We show you how to do those minutes yourself.

So it's very easy. Once we've set it up, it's very easy to maintain this corporation. So those are my thoughts on just keeping the maintenance going.

SM: And everybody, from what you've learned in this course so far, you should immediately be thinking about your ROI and what is your hour, or however long it would take those minutes to do, you should think right away – what is, it's so much smarter to pay him, these people who are really good at this, the $150 to do it for you so that you can go off and get those other things done.

I wanted to make sure we covered trademarks?

GS: Sure! That's a very important issue, Sheri. When you start a business, you need to ask yourself: Should I get a trademark for my business name. There's a lot of confusion out there. Some people think that when they form a corporation. Say they form XYZ Inc. That they have the right to use XYZ Inc. as their trade name. And there are two different things. A corporate name is just the name that is available at the Secretary of State's office. The trade name is a whole different issue. That is the name that you're going to protect with your state Secretary of State or better, with the US Patent and Trademark office. If you get a state trademark, you can use the name for, within your state. But if you get a federal trademark, you can use it across the country. And if your desire is to grow your business, it is recommended that you get a federal trademark so that you can use that name throughout the country.

It becomes an asset of the business. If you ever sell the business, having this trademark is another asset that you can sell. So, it's well worth the time and expense to get the trademark. As well, at the start, you don't want to go through the process of coming up with a clever name and paying for the brochures and the stationary only to find that someone else in North Carolina has the trademark – has a federal trademark – and can prevent you from doing business under that name. You'd be very surprised how many cease and desist letters go out whereby someone uses XYZ Inc. in California and someone in North Carolina, for example, owns the federal mark and can send a letter and force them to stop using the name.

So trademarking becomes important when you start a business because you need to see if anyone else out there is using the name. Now, it's very easy to check the trademark federally. You can go to www.uspto.gov. That's www.uspto.gov. That stands for United States Patent and Trademark Office. And they have a search function there. You can just go online and see who has the trademark. We also, at Corporate Direct, have a book that Katherine Kerry wrote called *Winning with Trademarks* and it's a 30-page book. It's free. You can download it and learn all about trademarking. And then, if you need our help, we provide the service where we can file the trademark for you. It takes about twelve to eighteen months. But once you file the name, then you are in line to get it. If there's no one else out there, you should be able to get the trademark.

And for me, Sheri, one way to check to see if the trademark's available is also to do a domain search. If you come up with that clever name, if you can get XYZ dot com, I would recommend that you get it. And if you can't, if someone else has it and their Web site is full and robust, maybe they have the trademark as well. So that's another way to check and see if these names are available. But I can't stress enough. If you're starting a business, you need to consider obtaining a trademark so that your name that you're going to grow with will be protected into the future.

SM: Definitely. And you have to love the Internet for just being able to do that initial research right away.

GS: Oh, yeah! People – there are services that will charge you, you know, one to two thousand dollars to do a complete search. But this is a great way to go. It's free. It's provided by the US Patent and Trademark Office. So it's worth checking into.

SM: Thank you. I wanted to see, also did you want to cover some new laws, I think that are in Nevada and Wyoming?

GS: Yes. We should talk about Nevada and Wyoming and then we'll go into the new Nevada laws.

SM: Okay.

GS: We like Nevada and Wyoming for their beneficial corporate laws. They have very good laws with regard to asset protection, for corporations, for LLCs and LPs. And so many people will form in Nevada or Wyoming and then qualify to do business in their home state. If you're – let's use California for an example. Because California's one of the most aggressive tax-collecting states in the world! They are more aggressive than the IRS.

So for example, if you're doing business in California, if you form a Nevada corporation and do business in California, you have to qualify to do business in the state of California. You have to pay taxes into California because that's where you're generating income. However, you want the better corporate laws. So, say for example, you set up in Nevada. You qualify to do business in California. That's perfectly acceptable. You're going to be paying California taxes. But you're going to have the benefit of a better corporate law.

Now you don't have to pay state taxes in Nevada or Wyoming. So we're not increasing the number of taxes that you have to pay by setting up in these good states. The annual fee for being a Nevada corporation is $225 a year to the state of Nevada. And Wyoming, it's only $50. So for the benefit of Nevada or Wyoming laws, it's either $225 or $50. And you're not paying any extra state taxes. There's no filing to do with the state in terms of a tax return. So you set up in these states and then you qualify to do business in your home state.

Now if you get sued individually in your home state, they can try and reach your assets. And by setting up in Nevada or Wyoming with an LLC or LP, we have what's called "the charging order." And that means a creditor has to wait until distributions are made from these entities.

In California for example, they can go right after the assets. They're not as good at asset protection in California. But by setting up in Nevada and Wyoming, they have to follow Nevada and Wyoming law, which makes it very difficult for a creditor to collect. Now, last summer, Nevada extended that protection from LLCs and LPs to corporations. The charging order now applies to Nevada corporations that have two to 75 shareholders. And this is really good asset protection. This is having – a lot of people are now setting up Nevada corporations for their small business because of this new asset protection feature.

So if you're considering starting a business in your home state, I would consider setting up in Nevada for the better asset protection and then qualifying into your home state. And we provide this service for you. I mean, you don't have to do it. Like Sheri said, you have things, other things to do. You're good at making money, you're good at working in your community to generate sales and leads and network. So you don't have to worry about this. We'll do it for you. But it's important to know that if you are doing business in your home state, you'll use a Nevada corporation and then qualify into your home state. You'll be part of your home state tax system. We don't want to run afoul of the local taxing authorities. But you'll have much better asset protection.

So as Sheri mentioned, this new Nevada law for asset protection in corporations is significant. And I would recommend it to all of you, setting up a Nevada corporation and then qualifying into your home state. So those are my thoughts there, Sheri.

SM: Well, thank you. And if you have additional questions, save them here and in a few minutes, you'll get to ask him. Now, let's see – I think you talked about protecting your personal residence. And that comes right into what you just said, correct?

GS: Yeah. The personal residence – a lot of my clients are now using LLCs to protect the personal residence. It's important to know that each state offers, or 47 or so states offer, homestead exemptions. And this is a great way, at a very low cost, to protect the equity in your house. The problem is, some states have a very low homestead exemption. So I'll give you an example. Say you have a house that's worth $300,000. And in Florida, if you file a homestead exemption, the house is worth $300,000. You have a mortgage of $200,000. You have $100,000 in equity to protect. In Florida, there's unlimited protection. So the homestead is the best way to go in Florida. Some states on the east coast only allow $15,000 of protection or $7,000 of protection. In California, it's only $75,000 of protection.

So if you live in a state that doesn't offer a homestead exemption or has a low threshold amount, then you look at putting your house into a single-member LLC and the whole notion of single member is, it may be best to talk to your CPA about it. They'll understand it. But basically, a single-member LLC is either you as an individual or husband or wife as joint tenant or as joint owners of that single-member LLC.

The advantage is, with a single member LLC, all the tax attributes flow onto your personal return. So you still get the mortgage interest deduction and you get that $500,000 tax credit on capital gains when you sell the property. So you're not giving up any of the benefits you have to home ownership. You get the mortgage interest deduction and then a $500,000 tax credit with a single member LLC.

What you also get is much better asset protection. If someone's suing you and they want to reach your house because you have $500 or $600 or however many thousands of dollars of equity in that house, it's going to be very difficult for them to reach the equity in your house if it's in an LLC.

SM: Well –

GS: Go head.

SM: We think of our house as one of our investments, you know.

GS: Right!

SM: Which everybody should. So that totally makes sense to me. Is that something that's new or has that been around?

GS: It's become more popular in the last three years. The IRS, about three years ago, said that single-member LLCs get the mortgage interest deduction and that $500,000 capital gains exclusion. So when they made that determination, a lot of people started putting their homes into LLCs.

SM: Which makes sense when you are out there building big businesses.

GS: Absolutely.

SM: And again, that's another millionaire mindset, is that you're thinking long term. So you're setting these things up correctly for the long term so that you, within your mindset, give yourself space to grow your companies. You're not holding yourself back.

So I want to take it off for Q&A here in one second. Is there anything else – one thing I was thinking that might be helpful is for people to kind of get an idea of the different types of team members they are going to need to hire more than likely to help them maintain this corporation. So right away, I think of your CPA and then your bookkeeper. Is there anybody else other than your company to set this stuff up and do the maintenance pieces that – any other people that you will see we will need on our team?

GS: Well, I think you've covered the main ones, Sheri. That certainly the CPA and the attorney or the Corporate Direct that can assist you in maintaining the corporation. Are important. You know, it's always nice to know a banker! If you're part of a Chamber of Commerce or a networking group, to know a banker to have a personal relationship with a banker, I think is a good strategy.

Another strategy is, you know, there are all these community banks starting up. And if you could even invest $2000 and become a shareholder in one of these community banks, you're part of their team. And as a shareholder, even with a minimum investment of $1000 or two, you have access to the bankers. So that's a strategy that has worked well for both myself and other clients. To, you know, even a small investment in a new bank start-up.

But I think a banker on your team. You mentioned a CPA, the attorney, certainly a good bookkeeper. You don't want a CPA doing your books. It just gets too expensive.

SM: Yeah –

GS: What's that?

SM: That's exactly what I found out, too!

GS: Right. But those are the key team members. Before we open it up to questions, if I could just answer one more question that a lot of people have, Sheri, that would be great.

SM: That's wonderful.

GS: All right. There are a lot of promoters out there saying that if you set up a living trust, you will have asset protection. And that's not correct. A living trust is great for probate avoidance, for making sure that the correct assets go to the correct people upon your death. But a living trust offers no asset protection. So you wouldn't set up a business and say it's owned by your living trust. You need to set up a corporation which can then be owned by your living trust.

The living trust, by itself, will not give you the asset protection. So that's a final thought before we open up the phone line.

SM: And that's a really important point. And again, I rely on all of the – the people that I pay to know this information because I start to get overwhelmed. So if anyone on the call is thinking, "Oh my gosh, this is so much to learn," take a deep breath and know that the tools are here for you. And this is how wealthy people think. Wealthy people recognize that this is a fear and they recognize overwhelm for what it is and they just move forward and they get it. And that's a new mindset that everyone is installing into their minds in this program, and I just want to point that out.

Okay. Let me take everyone off of the lecture mode. Hold on one second. Okay. So if you don't need to ask a question, make sure you push star 6 to keep yourself on mute. And I did get one email, so I was going to let that person ask their question first and that is Brenda Rivas? Are you on the line? And if you're not on the line, I will go ahead and ask that question for you and then I will open it up for everybody else.

So, Garrett, her question – she asked, what structure should she use to start her association. She has an incorporation right now, Brenda Rivas Inc. but she – she uses that for consulting work. And she is working to start a national association of minority women entrepreneurs. And she's asking, should she use her current corporation for branding purposes or should she be using some other type of entity? And I don't know if that's black and white or not. Brenda, are you on the line? I was really curious if she has an S-corp or a C-corp, right?

GS: Yes. That would be my first question for her own business, for her consulting business.

AM: Hi, I'm sorry. I'm here.

SM: There she is! There she is!

GS: Oh. Hi Brenda.

AM: Hi. I do have an S corporation.

GS: Good. Good. How's that working for you?

AM: Very good.

GS: Good. Well, that's the right way to run your consulting business. On the national association, the choice would be a non profit corporation or a C or an S corporation. We would have to analyze it. But the question for me is on a non profit for a national association has worked well for other people in the past. The issue is, Brenda, you don't own that corporation. It's a non profit and if they were to accumulate assets and grow, it would be as a non profit, not as Brenda's company. So if your strategy is to grow this thing and encourage people to make tax-deductible contributions, to receive grants, to go the non profit route, you would be a non profit corporation, which would require that you get a 501(c)(3) designation. That's an IRS code for non profits. So people could make tax-deductible contributions to you.

If it's really a business, if it's a national association that Brenda runs and wants to own, I would probably do an S corporation. Just know that people couldn't make tax-deductible contributions to you. They could pay a membership fee, you know, $100 a year to be a member of the national association. That goes into the pot. They get their benefits from it. And at the end of the year, the profits are Brenda's. So there are two ways to do it, it just really depends on what your strategy is for this new entity.

AM: Okay. So this would be a separate corporation than from my current corporation?

GS: I would say so. Yes.

AM: Okay.

SM: Now, Garrett, this is Sheri. And I have – because I own multiple associations and companies. I put all of them under an umbrella S-corp. And so could she do that too? Since she already has that S-corp?

GS: She could. I just would hate to see, you know, the S-corp get sued for a consulting job. The creditor could reach the national association as well.

SM: Okay, and that's the danger when you start to use the umbrella?

GS: Correct. I like splitting them up.

SM: Okay.

GS: They are not that tough to maintain. And so by having – it's a business expense for each one of them. To pay the fees and all. So I just prepare to segregate assets.

SM: Gotcha. Gotcha. I wish I would have talked to you years ago before I did my non profit!

GS: Well, we could talk off-line and figure out how to do it.

SM: And I already, I don't want to go the non profit route. This is Sheri. Because I went down that road and it wasn't that much fun for me personally.

GS: Well, no. There are challenges there.

SM: Oh, there definitely were! And I had those concerns. I just talked to the wrong people when I was putting it together.

GS: Yeah.

SM: I talked to people who had never run a non profit, so that wasn't the best people to talking to!

GS: Exactly!

SM: Okay. Thank you so much. I think that was excellent. Brenda, did you have any more to add to that?

AM: No, but I really appreciate that advice. It clears up a lot of misconceptions. So I appreciate all the information that you've provided thus far, Garrett.

GS: Well, thank you, Brenda.

SM: Okay. Do we have any other questions on the line today?

AM: Oh – I have –

SM: Okay, go ahead?

AM: This is Catherine. Could you talk a little bit about how to either segregate profits off of intellectual property or would, like, writing be a separate S-corp for profits that come in from sales of intellectual property versus consulting versus I have an actual S-corp already as a flower essence company.

GS: That's a great question, Catherine. A lot of our clients will use a separate LLC or corporation to hold their intellectual property and receive royalties. Again, segregating assets. We wouldn't want you to be sued in your regular business and have someone be able to reach your valuable trademarks and other intellectual property. So what we do, what I do personally is we have a separate entity to hold all the trademarks and royalty-producing items. We just split it apart from the operating business into a separate intellectual property holding entity.

AM: Okay. And if a sale of a company came to pass then any of those intellectual properties would be considered, it would be a different kind of contract or sale, I guess.

GS: Well another thing to know is you will have a contract between your IP holding company, we used Wyoming for this. You'll have a contract between the Wyoming intellectual property holding company and your existing company. And when it comes time for a sale, you then have the option – do you want to hold the intellectual property and continue to license it to the new owner? Or do you want to sell both companies to the new owner? By having the two separate companies, we've seen that people have been able to command a higher price than if it was in one entity.

AM: Okay. Now I'll be calling you about that. Because my current S-corp is in Delaware.

GS: Aha.

AM: And considering Delaware versus Nevada versus, in terms of protection. Is it worth changing states?

GS: If you're set up in Delaware and everything is working fine, I wouldn't change it. You know, I hate to see people spend more money than they need to. Delaware's fine. There are a little higher fees. There a few differences. But if you're already set up, I would just stay there.

AM: Okay.

GS: But the intellectual property entity, I would suggest a Wyoming entity, which is less expensive.

AM: Which is good for me. Because I make things in Wyoming.

GS: Great!

AM: All right. Thank you very much, Garrett.

GS: Sure. Thank you, Catherine.

AM: I have a question.

GS: All right.

AM: About trademarks. If you register a trademark just within your state, is that something that needs to be renewed every year? Or do you own it until you retire it?

GS: Each state has a different rule on that. In Nevada, you have to renew it every five years.

AM: Okay.

GS: So I would call the Secretary of State's office or go online and just see what the renewal process is.

AM: All right! Thank you so much.

GS: Sure. And then if you're going to grow beyond your state borders, I would consider looking at a federal trademark.

AM: Okay. Thank you.

GS: Sure.

AM: Here's another trademark question. International trademarks for sales overseas?

GS: Right. A good idea to get them. There are pirates out there that see that if you're doing well in the US, if you establish a brand in the US and are perhaps going to come overseas, they will go ahead and obtain the trademark rights overseas ahead of you. So you need to consider. If you know you're going to grow overseas, I would consider getting a trademark in those countries that you would expand into. Catherine Kerry in our office helps people with this. We work with attorneys around the world on trademarks. So feel free to call Catherine and talk to her about this strategy.

AM: Okay. Thank you.

AM: Garrett, this is Patricia. Can you hear me?

GS: I can.

AM: Good! What I want to ask is – let's say I want to set up a company like Sheri's. That does business all across the United States and Canada, wherever. On the Internet. How do you pay taxes and how do you set yourself up to do this? Does – would it work like in Nevada or Wyoming versus setting up in my home state? How do you deal with paying taxes to the states or –

GS: Well, that's a good question. If you, say for example, you set up a Nevada company to run an Internet business. A lot of people have set up in Nevada because the server line runs right through downtown Reno, so! A lot of people have Internet businesses here just because it's easy. And then you have – where are you located, Patricia? What state?

AM: Tennessee.

GS: Tennessee. Okay. So you have a business in Tennessee. You are an employee in Tennessee. You have an office in Tennessee. That Nevada company would have to qualify to do business in Tennessee. And it's not hard to do. But you'll be paying Tennessee taxes at least on the portion, a portion to your activities in Tennessee. Now, when you collect taxes on Internet sales, some states are requiring it now. But it's really a dynamic area and right now, a lot of companies do not, as you know, pay taxes for Internet sales.

Another strategy would be to have a Nevada Internet company. It collects all the money from sales generated around the world. There are no Nevada state taxes and that's the activity that takes place in Nevada. You then set up a Tennessee company that is organized to provide services to the Nevada company. And so Nevada doesn't own the Tennessee, it's two separate entities. And that way, we keep all the taxable sales occurring in Nevada out of Tennessee. They are two separate companies. We do that a lot with California companies. Where we want to just keep all the California activities isolated, segregated into California and then we use a separate Nevada entity to generate all the income. So that would be another strategy.

AM: Okay. So the Nevada company would have to pay sales tax, is what I'm talking about –

GS: Well, what would happen is that the Nevada company would have to pay sales taxes on sales that occurred within Nevada.

AM: Okay.

GS: All right? If your Internet business sells a product in Minnesota, the sale did not occur in Nevada. It was online. You wouldn't have to pay Nevada taxes on that.

AM: Gotcha.

GS: Sales taxes. There are no Nevada state or corporate taxes. But there are Nevada sales taxes. If the sale does not occur in Nevada, you don't have to pay sales tax.

AM: And would it be better to have a second, the second entity set up in Tennessee or Florida? You are probably more familiar with Florida.

GS: I am. But if you live in Tennessee and that's where you're going to work from, you have a home office or a brick-and-mortar office building in Tennessee, I would set up in Tennessee.

AM: Well, see I spend as much in Florida as I do in Tennessee. And either one would be comfortable for me. And I don't necessarily have to have a brick-and-mortar. I can do this, outsourcing a lot of it.

GS: All right. You may consider then Florida. Florida has lower taxes than Tennessee. You could set up a Florida entity to do it. And – how are you going to pay yourself a salary, that's the big question?

AM: I have no idea!

GS: Well, you'll generate income through the Nevada company. The Nevada company will pay a fee to the Florida company. The Florida company will then pay your salary. And all your payroll taxes and all. And it's like a spigot. You can regulate. Because you own both companies. You can regulate how much money goes into Florida to pay your salary and your expenses. And then leave the rest in Nevada, where there's no state tax.

AM: Okay.

GS: And I know this is kind of complicated. What we do is we'll spend half an hour or an hour on the phone with people on a consult and go through it all so that you understand exactly what we're doing. And as you can tell from this question, Patricia, there are a couple of options that we should look at. And so, on a conference call that's half an hour or an hour, that's all we really need. I don't like to spend more time than that. Because usually, we get the answer very quickly.

But in the conference call, we could go through the various options and come up with the best answer for you.

AM: And who would I talk to on this particular conference call? For those questions?

GS: Well, you're going to need to talk to both an attorney and a CPA.

AM: In your office?

GS: Well, no. You're free to deal with your own attorney. You can also call our office. We can set up a consult. Do you have a CPA right now?

AM: Yes.

GS: Okay.

AM: And I am in the process of possibly getting an attorney. Which makes this call the perfect time. I mean, I have an attorney. But I'm talking about one like you, that specializes. So this is a perfect call. It will help me make my decision.

GS: Right. So certainly, I am not licensed in Tennessee and Florida. And so if you have local issues involving those two states, you do need the local person. We deal with people all over the country, all over the world on this specialized issue of setting up the right structure using Nevada and Wyoming entities to your advantage. So conceivably, your team could include a corporate attorney – such as our firm, from our firm – and then a local attorney for Tennessee and Florida issues.

AM: Okay. Thank you. That's so helpful. Thank you.

GS: Good! Any other questions?

AM: Yes, this is Karen. I have a quick question about that LLC for the personal residence?

GS: Aha?

AM: How do you handle the piercing of the corporate veil question when it's your home? I mean, maintenance and those kinds of things have to go through that. Is there anything specialized to making sure –

GS: No. You'll just follow – you'll pay the annual fees, you'll have the minutes. It's the same for your personal residence LLC as it is for a corporation.

AM: And so if you have to do major repairs, then the money for that flows back to the company out to the vendors. You just do it that way?

GS: Yeah. You can have a separate bank account. Some people, if it's a single-member LLC, they will just use their own personal account. The key to all this is to make sure the title to the property is in the name of the LLC.

AM: Oh. Okay.

GS: So make sure the title is in there. And then I would work with your CPA. Some CPAs will want you to have a separate LLC bank account for the house. Other CPAs, because it is a single-member flow through, will just say use your own personal funds and we'll account for it. So I generally defer to the CPAs on how they want to handle the bank accounts and the accounting.

AM: Okay. Thank you.

GS: Any other questions?

SM: I told you they would have a lot of questions!

GS: Yeah! That's good! Good questions.

AM: I have to say that with all the advice I got – this is Catherine. I seem to be set up all wrong. In terms of how money flows from Arizona to Delaware and out.

GS: Aha.

AM: Because basically, the IRS and the state put me into – without a company, I'm just me, my personal account. I go from Delaware to my personal account to pay taxes for Arizona. And not charging sales tax in Delaware but charging sales tax out of Arizona because that's where the product leaves.

GS: Right. Yeah, there could be some better ways to structure your affairs.

AM: Yeah.

GS: And we work with a very good CPA in Arizona if you need a referral.

AM: Yes!

GS: His name is Jim Reed with Teton Tax.

AM: Okay.

GS: We share an office with him in Jackson Hole, Wyoming. And he's also in Tucson. But he's a very good CPA.

AM: Okay. I come up to Jackson every year, so.

GS: Oh, you do? Well, our office is just two blocks off the town square there.

AM: Oh yeah. Okay. Thank you. So I'll call him.

SM: Okay. I think we're out of time. Garrett, I know you have another appointment to go to. So everyone – I really, really appreciate your questions. And Garrett, most of all, I really appreciate you sharing this advice and also offering the discount on your services to all the members of this group. I can't appreciate that enough, because you are helping people who are in start up and that really helps them out.

So thank you so much again. And one thing to kind of tie up the call and she just kind of brought that and maybe you remember that when you were on

Melanie's call, was there are a lot kind of inexperienced people out there giving advice that they really are not specialists in that area.

GS: Right.

SM: And I remember talking about that on Melanie's call. So that's just one of those things that now that you are, running – the people who are in this program are here to learn millionaire mindsets. And one of those mindsets is doing your due diligence. Not being too hard on yourself when you do things wrong. And just know that that's a learning experience and you're moving on and now you're going to set it up right. Now that you know better, you're doing better! So I think that's a huge piece. People kind of feel like they made a mistake sometimes and they just stop.

GS: Right. Well, thank you for all you do, Sheri. I mean, it's great advice that you're providing people. And I'm sure that people are benefiting from it.

SM: Well, I hope so! And they say they are. So thank you so much and I'm looking forward to connecting with you again. They will also be getting your book, and I believe it's *Owning Your Own Corporation* is what I'm purchasing for them and sending to all of them at the end of March, so –

GS: Great!

SM: They will be able to dig in even a little more. But again, his Web site for more additional resources on the subject we've been talking about today is at www.corporatedirect.com. And then for success strategies and you have a radio program and a lot of entrepreneurial type information, you'll want to check his www.successdna.com. Okay?

GS: Great!

SM: Thank you, Garrett. Take care.

GS: All right. Thanks, Sheri!

SM: Take care.

AM: Bye.

GS: Bye. Take care, everybody.

AM: Bye.

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