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JIM: Did you pay too much in taxes last year? Do you know if there’s some additional savings that you might have missed? Joining Real Wealth today is Sanford Botkin, CPA and attorney as well as the Chief Executive Officer and principal lecturer for the Tax Reduction Institute based in Washington, DC. For the past 25 years, Sandy has taught thousands of taxpayers how to save millions of dollars on their taxes through his seminars around the country. Today, he is here to join us to share with us some of the often overlooked deductions that taxpayers are missing as well as a convenient tax tracking tool that can make things easier if you have to go through an audit as well as making sure you never miss those important deductions and overpay your taxes going forward. Welcome, Sandy. It’s great to have you back.

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SANFORD BOTKIN: It’s a pleasure to be on.

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JIM: We’re recording this right in the middle of tax season and I know a lot of people are getting their taxes back. Taxes are probably the number one expense in North America and I know a lot of people probably don’t even realize that it’s one of the biggest expenses because there’s a lot of taxes I don’t even think people think about because they don’t even know they’re being taken out of when they make a purchase, when they get their paycheck. Can you comment on that a little bit?

1:16

SANFORD BOTKIN: Well, you know, that’s absolutely true. In fact, it’s interesting. People, especially self-employed people, are overpaying their taxes to the tune of billions, and I’m not the only one who noticed this. This is actually widespread knowledge. John Potter, who is President of the American Institute of CPAs, said exactly the same thing. Now, you might wonder why are people overpaying their taxes. Oh, by the way, even more important than that is that over 95% of the people who are overpaying don’t think they’re overpaying and the question is why and there’s three reasons. One is lack of knowledge. You don’t know what you don’t know and I’ll think we’ll be covering some things today that people, the average person just doesn’t know. The second reason, which is a major killer of deductions, and it’s surprising how big this is, is procrastination. If you don’t have something triggering you to wake up in the morning, like an alarm clock, it’s not going to happen. You may not wake up. You may not get to the appointment. The same thing is true in tax law. If you don’t have a good tax tracker, and I’ll get into what that is, but if you don’t have a good tax tracker to trigger you to put in the entertainment questions, the travel, the mileage log, and things like that, you’re not going to do it and your records will not be compliant and, finally, is fear of the IRS and that’s a silly thing because, if your records are right, you don’t need to fear them but it’s amazing how many people I meet who take less in deductions, legitimate deductions, and think that they’re going to reduce their chance of audit. The sad fact is that will have absolutely no effect on their chance of an audit.

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JIM: And I know, Sandy, your background is you’re a CPA and you’ve helped your clients and I know a lot of clients, the way they look at taxes, they just put everything in a shoebox, give it to their accountant, and their accountant tells them what their refund is going to be or what they owe, and that’s no way to save money on taxes. I always said do you have a preparer or do you have someone who’s going to give you professional advice? What you’re talking about is making sure you understand those things and you don’t have to be an expert but you could team up with a CPA that can help guide you in the right direction but, also, there’s a lot of tools available that can help you. One comment that you sent to me prior to us doing this program is that only 4% of people entering retirement age retire with the same standard of living they had before retirement. Why is that?

3:17

SANFORD BOTKIN: That’s not me. That was actually some studies done and there’s a lot of reasons for that but one big reason is taxes. You know, interestingly enough, if you can save $7000 a year in taxes and you do this for a 40-year lifespan, if you put it in an average performing mutual fund, its worth about $3 million. Literally, people are overpaying their taxes. Albert Einstein said that compound interest is the eighth wonder of the world. It can work for you by getting your taxes down to the legal minimum or to work against you by overpaying your taxes so that’s certainly one reason. The second reason, when you get younger, you have a family, you have college education coming up, you don’t think about your retirement. People in their 20s don’t think, oh, I’m going to retire in 30 or 40 years, I don’t have to worry about putting money into a 401(k) or IRA. Boy, as you know, retirement comes at you very, very quickly. In fact, there’s a sad fact that 50% of all people who have 401(k) matching plans with their employer don’t max out their 401(k). That’s free money and, yet, they’re not matching out their 401(k) in order to get the maximum contribution.

4:17

JIM: Yeah, that amazes me how many times I meet with clients for the first time and they’re just missing that. Sandy, talk about the government and the two tax systems that it has.

4:27

SANFORD BOTKIN: Most people don’t realize, and this is a very important point to get your taxes down, is that we really have two tax systems in this country and when I say that, the first reaction for most people who hear this is, oh sure, one for rich and one for poor, and that’s not true. It’s close. There’s one to make you rich and there’s one to make you poor. The one to make you poor, unfortunately, is designed for the working stiff or the employee because you don’t get that many deductions despite what you may think. If you do get a deduction, it’s got to exceed a threshold and you’re taxed on dollar one, literally, dollar one, but, if you’re self-employed, that, the system that makes you rich and you know the rules, the key is you have to know the rules, because, there, you’re taxed on your net income, that the government doesn’t get one dime to drink until you deduct all of your expenses first. You don’t have any threshold you have to exceed. You get all of the deductions that an employee gets plus you could write off part of your house, your spouse, the equivalent. You can deduct the equivalent of your kids’ education and weddings, I’m not exaggerating when I say that. If we have time, I’ll get into how to do that. You can set up, as you know, a pension plan that makes any government plan look small by comparison and the tax benefits of being in business are enormous. People might wonder, you know, why is that? Why does the government give good tax laws for small business and the answer is that the US government has learned something many, many years ago that, still, a lot of foreign countries haven’t learned and that is, from little acorns come big trees. For example, Apple computer didn’t start with 200,000 employees. It started out of Steve Jobs and Steve Wozniak’s garage. The big internet giant Amazon started out of Jeff Bezos garage so, by passing good tax laws for small business that is going to be the economic engine that will generate large companies and large numbers of jobs.

6:05

JIM: So, share with us, too, now, you talk about the concept of redirected taxes. What does that mean?

6:11

SANFORD BOTKIN: It’s a very simple concept. Let’s take an employee. There’s a lot of expenses that an employee has that they normally can’t deduct and the same thing is true for self-employed people who don’t know the rules. They’re just like an employee. For example, an employee might spend money on restaurants, they eat out a lot. That’s normally not deductible. They might have a cellphone bill. That’s normally not deductible. They drive to work with gas, oil, insurance. Not deductible. They might rent an apartment, which is not deductible, or have mortgage interest. That would be deductible but as an itemized deduction. If they have medical expenses, they’d have to exceed a certain threshold. However, if you are self-employed and you know the rules, portions of those nondeductible expenses now can be deducted as a business expense. These are things you’re spending anyway, the gas, the insurance, the repairs, the restaurants. These could be deductible if you’re self-employed and you do it correctly. That’s what I call redirected tax dollars. You’re taking advantage of the good tax system to deduct things you normally weren’t able to deduct before but you’re still spending money on.

7:10

JIM: You talked about itemized deductions. For those under 65 and I guess for those over 65, there’s going to be a phase-in to much higher thresholds to make those itemized deductions so what you’re telling us is getting even more compelling. Is that true?

7:23

SANFORD BOTKIN: Oh, that’s absolutely true. An itemized deduction is phased out as you make over a certain income. Exemptions start phasing out as you make over a certain income. If you’re an employee and you take too many deductions, then you can be hit with alternative minimum tax, which is not true for self-employed people. You can take all of the deductions you want in life and you don’t get hit with that alternative minimum tax based on that. In fact, if you’re self-employed and you generate a loss, you can use that loss against any form of income you have, interest, dividends, raises, rents, anything. If the loss exceeds that, you can carry back the loss two years or even carry it forward up to 20 years. Employees don’t get that deal unless they are also self-employed.

7:57

JIM: We’re going to take a short break. When we come back, we’re going to continue visiting with CPA Sandy Botkin about all of the opportunities for people to save on their taxes and have a more comfortable retirement. Please stay tuned.

8:11

BREAK

8:53

JIM: Welcome back as we continue to visit with CPA Sandy Botkin as he’s sharing with us a lot of the opportunities that a lot of times people just miss. Before the break, Sandy, we were talking about all of the benefits for someone who is self-employed and the benefits that they have in deductions they may not even be taking. Sometimes, they’re not taking them because they don’t know about them. Other times, they might be fearing the IRS. Maybe not being as aggressive, and I don’t even like the term aggressive because, if the tax code provides it, you can take it, but there’s a lot of myths out there about don’t take this deduction and don’t take that deduction. Oh my god, that’s a red flag. Well, if the tax code provides it and you’ve got a good tax counselor and good records, there’s no reason why you shouldn’t be taking it. Let’s talk about that. Why are people overpaying on their taxes? I mentioned a couple and I’m sure you’ve got quite a few more.

9:43

SANFORD BOTKIN: The main reason is lack of knowledge. That’s probably the number one reason. They hear these myths and they believe it. For example, I’m sure you’ve heard that if you claim a home office deduction, you’re going to get audited or it’s not worth it, and I’ll bet you half of the people in the country probably have heard that. The sad fact is that, in 1999, Congress liberalized the home office rules. Now, my question is very simple. Why would Congress do that if they didn’t want you to take the deduction? In addition, I actually have a friend who did a study of people who claimed home office versus those that don’t claim a home office and, you know what, the statistics of being audit are actually very close as to whether you claim a home office or don’t so my point is, if you’re eligible and your audit risk is about the same, believe me when I tell you a home office is worth thousands and thousands of dollars, you’re crazy not to take it if you’re eligible.

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JIM: And didn’t they just recently, Sandy, even make that more easy to do because you can actually figure out more of an actual cost but for those that don’t want to go through all of the recordkeeping, there’s just a standard type deduction you can get on your home now. I think that started maybe a year or two ago.

10:45

SANFORD BOTKIN: Yeah, that’s correct. I don’t know if it’s easier because you’ve got to meet the same rules, basically, but, instead of having to worry about what your square footage is and then make an allocation, the IRS came out with what they call kind of a safe harbor home office rule where you can claim $5 a square foot up to a maximum of 300 square feet for your home office. Now, you don’t have to make an allocation between your square foot in your home versus your total square feet but you’ve still got to meet the rules. You’ve still got to use the room as your principal place of business. It’s got to be used regularly, at least 45 minutes a day, four to five days a week, that’s what regular use means, and it’s got to be used an exclusive portion of a room, so all of those rules still have to be in place even if you use the IRS safe harbor approach. As I said, there’s a lot of myths. There’s a tremendous number of myths. One of the biggest myths is my accountant takes care of me and, sadly, the fact is that’s not true. The accountant is only as good as your documentation, is only as good as the knowledge that you have. If you don’t have the right knowledge, if you don’t have good documentation, there’s only so much your accountant can do for you. It’s got to be a partnership effort.

11:47

JIM: Now, one thing is, if you’re going to be in business for yourself, you already are at a bigger risk of being audited. Can you share with our audience why that is?

11:55

SANFORD BOTKIN: Well, it is true that if you are self-employed, you have as much as a 700% more likely chance of being audited than if you are an employee. That is true and that’s why having good documentation, such as a tax tracker, is very critical but the reason for that is simple. Number one, self-employed people are legitimately allowed a lot more in deductions. That’s one big reason. The second reason is that employees get all of their money withheld from their paychecks literally so the government has got their money upfront whereas self-employed people, you have to pay estimated taxes. It’s not automatically withheld so the government likes to audit them and make sure they’re paying their fair share. That’s pretty much the reason for that.

12:30

JIM: And being audited, that’s not necessarily a bad thing. I mean, yeah, it’s kind of a hassle to go through it but that’s just something that happens to people. The importance of going through an audit is whether you prevail or not with what you put on your tax return. You started to talk about recordkeeping and I know you helped build the app Taxbot. I’ve become a big fan of that because I’m the type of person that it’s a hassle to keep records, it’s a hassle to do all of this, and your Taxbot, for someone in business, is basically, in my opinion, kind of a no-brainer on how it tracks all of the expenses, so maybe share with our audience a little bit about what Taxbot is, how you came to create it, and how it makes keeping expenses so much easier for people so that when they do go to their CPA, they’re well prepared with their records.

13:15

SANFORD BOTKIN: Sure. First of all, let me emphasize something here. I don’t like documenting any more than you do. I mean I want to focus on the things that make me money. That’s what I do. That’s what most people want to do. It’s what most financial planners want to do. I mean that’s just nature of life. However, I will do it if it’s simple, easy, and fast. That’s one thing I’ve learned about myself and I think most people will do things if it’s simple, easy, and fast. The IRS, a number of years ago, came out with a notice that they are now accepting digital documentation, which means you no longer have to keep the receipt. They actually want it on the web and to have it digitally because, this way, when hurricanes hit, you don’t lose your records and so on, so I decided to create something that I myself would want to use and that’s why we call it Taxbot. Taxbot is a really ingenious application for the smartphone, for the droid, the iPad, the droid tablet, and the web. It’s got a number of really cool features. First of all, it has an integrated expense tracker. There’s two buttons so you can’t get more complicated than that, two buttons, add expense, and if I have lunch with you, Jim, one of the categories, and all of these categories are editable and customizable, is meals. The minute I click on meals, all of the questions the IRS requires for who, what, when, where, why, and how much pop up, so that your procrastination, remember, I said that’s one of the big killers of deductions, is eliminated because all you do is type those things in and you are bulletproof. Secondly, it has an integrated camera so, now, you can take a picture of those receipts so you don’t have to keep the paper. You can then save everything up on the web so, if you lose your phone, you don’t lose your data. Two more things. Taxbot has an integrated mileage tracker with a GPS system and this one is really cool. We can use it in two ways. One way, we call the manual way where you can just turn it on and then, as you go to your destination, it keeps track of where you are and then, when you get to your destination, you just say stop mileage tracking. It will automatically give you the beginning address, automatically give you the ending address, you don’t type this in, automatically give you the mileage, automatically give you the date. You just type in what the reason was, what was the explanation, and whether it’s business or personal, and then save it. It goes on the web and it stores it for you, summarizes it for you. It’s terrific. The other option, which is called the automatic method, where you don’t even have to turn it on. It automatically turns on for you once you hit over five miles per hour. It automatically stays on and, when you stop for over five minutes, it then shuts off so you don’t have to worry about turning it off, and it gives you that same data, the beginning and ending address, the mileage, the date, everything. All you put in is click on business or personal and the reason and that’s it. That’s called the automatic method and you can even reconstruct where you put in the addresses and it will actually give you the route. I mean it’s just terrific. Finally, Taxbot has me. It has over 40 videos on all kinds of tax and financial topics, not just tax, things like asset protection and entertainment, how to write off your cruise ships. I have over 370 blogs. If you can think about it, there’s a topic on it. For example, I did a blog on how to evaluate nursing homes, a little checklist on what to look for. I did a topic on how to write off cruise ships. There’s two ways to do that. How to write off clothing, I just did a recent blog on that. The 10 most overlooked deductions in the United States, I just did a blog on that. We had several reviewers that say you get one idea from the blogs, you have saved thousands, and so all of this is in TaxBot. Most people don’t realize how important the tax tracker is. It is your audit insurance for the IRS. It will keep IRS off your back. They must believe everything you say in your tax tracker. Unless they can prove fraud, they must believe it. Like homeowners insurance and car insurance, it keeps them off your back, it products you, and, unlike car insurance, it pays you every single year and you’ll never get suspended. Having a tax tracker is absolutely a no-brainer.

16:51

JIM: I’ve got to say I totally agree with you. I’ve got a lot of business clients and, a lot of times, they don’t meet with their accountant. They look at that as an expense but I see it as an investment. One of the biggest problems and the accountants that I’ve talked to say is that their clients don’t keep the records along the way so it’s really hard to do planning. When you look at things like accelerated expense deductions and depreciation and things like that that we’ve had from time-to-time, knowing whether or not to make that purchase this year or next year or how to do it, well, if you don’t have records of what all your expenses are and if you’re not meeting with your accountant regularly throughout the year, even if it’s just a yearend planning meeting, if you don’t have your records together, it’s not advice. It’s kind of an educated guess of what you should be doing. This is just a great way for people to keep things to the penny.

17:40

SANFORD BOTKIN: One thing I wanted to mentioned, you’re absolutely right about that. With Taxbot, you get special reports, which you can generate by date, by category. You even get a graph on what you’re spending on every category, which is very important, because you can use that for budgeting as to what you’re spending and what you will be spending in the future, which is one of the reasons why Taxbot is recommended by the National Society of Accountants for all of their clients throughout the United States. I mean we’re recommended by almost every real estate association. We’re recommended by top 10 reviews. We were the number one rated expense tracking app from 2013 and 2014, and I just found out we’re going to be number one in 2015, too. There’s a reason for it because it’s easy and simple. If you want something easy and simple for your accountant, to be absolutely IRS compliant, you’re not going to do better than Taxbot, I’ll tell you that.

18:21

JIM: Normally, on my program, I’m not talking about things people can buy and I’m not promoting products, but this is something I’m using myself and we talk about the importance of good advice and, unless you have good facts, it’s hard to get good advice, and this is a tool that I think is really a no-brainer for people to use, especially if they’re a business. One thing I’d even mention, too, I see a lot of clients that don’t take the full charitable deductions they could be or medical deductions because they don’t track their mileage and, if you’ve got a spouse or a friend or family member that you’re driving around to doctors because they have some type of illness where they need regular treatments. I just had a client in not so long ago that needs kidney dialysis three times a week and they’re driving to and from the doctor’s office three times a week and they’re not keeping track of their mileage.

19:11

SANFORD BOTKIN: That’s right. I said this in my 10 overlooked tax deductions. Funny you mentioned that. Medical and charity are the two most overlooked deductions in the United States, particularly charity. In my neighborhood, a friend of mine who is on his church choir, he goes into choir practice and he performs at events. He should be claiming 14 cents a mile, round trip, for every event and every practice. Do you think he’s doing it? No. In my neighborhood, we have a lot of moms driving their daughters around selling Girl Scout cookies. They always come to my house because they know I like Samoas. Those moms should be tracking their mileage because they could be claiming 14 cents a mile. Do you think one mom in this country is doing that? Probably not.

19:43

JIM: I definitely concur. When I talk to clients, those are the two, and it’s because it’s the hassle of keeping track of it, and I find with what I’m doing, it made it a lot easier. I was not doing as good of a job keeping track of that stuff in the past but, having the tools now make it so much easier. One last thing I would finish with, I appreciate the folks over at Taxbot and you, Sandy, for our listeners. Normally, you guys charge $19.99 a month. For our listeners, they can get it for $9.99 a month and I believe so much in this tool, it’s actually in your resources section so you can just click on that and all of the information that Sandy talked about. I’ve got to tell you, the amount of clients that I work with, once they’re educated on what the resources are. I just met with a client today. They were going to take a bunch of money out of their IRA to prepay a mortgage quicker and what they had planned on doing would have put them in a 25% bracket and I said, you know, with interest rates lower, just what we’re going to save on taxes by keeping them in the 15% bracket allows them to save a ton of money so it’s making smart choices with your money, understanding where you are. When it comes to taxes, it’s probably the biggest expense anybody pays. If you really look at what you pay for your gas tax, your sales tax, state income tax, federal tax, you start adding all of these taxes up, a lot of your money is going away. If you start paying attention to those details, you can get a lot further in life a lot quicker. Any final thoughts or things for our listeners, Sandy?

21:05

SANFORD BOTKIN: If you want to save money, you can’t save it, whether it be taxes or anything else, unless you track it. You can’t. One has to go with the other. Taxbot is a very, very easy, for those people who want something simple, easy, and fast to do this, and I guess the bottom line is, you know, if you want to get some other expense tracker or have a fireproof safe, hey, go for it. If you want something simple, easy, and fast, Taxbot is probably as good as it gets. By using it, you’ll keep the government off your back, how will that feel, save thousands of dollars and, most importantly, you’ll make your entire life a lot less taxing.

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JIM: And I’ve got to believe the expense of it is also deductible.

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SANFORD BOTKIN: Oh, yes. Fully tax-deductible. Everything I do is a deduction.

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JIM: All right, well I appreciate you taking the time with us, Sandy. You’ve got an awesome tool. I use it myself. I encourage people to take a look at it. Now that it’s tax season, it is a good time if people are getting their taxes back and taking a look at what they’re paying. I look at most people, the myth of, oh, I got a refund. They paid $8000 in and they get $1500 back and they think the government was paying them money. All they’re doing is returning money that they over gave the government in an interest-free loan.

22:11

SANFORD BOTKIN: I actually had somebody say that to me.

22:12

JIM: Yeah.

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SANFORD BOTKIN: They think, oh, I don’t pay taxes. I just get refunds every year and he wasn’t even getting it all back.

22:19

JIM: Yeah, it’s amazing. People don’t even realize it. Well, thanks again, Sandy. I appreciate you joining us.

22:23

SANFORD BOTKIN: My pleasure.

22:24

JIM: Thanks for joining us this week and tune in again next week as we explore another phase of the Real Wealth process and, remember, if anything you heard in today’s show you’d like to get more information about, contact your Real Wealth advisor. Also, if you feel that any of this information would be helpful to a friend or family member, just click the Forward to a Friend button.