



# REAL ESTATE INVESTING MASTERY

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## 1172 – Dig Your Well Before You're Thirsty

Hosted by: Joe McCall

Guest: Tommy Thornburgh

**Joe:**

All right, guys. Hey, this is Joe McCall. How are you doing, everybody? Joe McCall with the Real Estate Investing Mastery Podcast. We're doing something different here. I'm normally do these live podcasts on stream yard, but this time we are doing it in Zoom and we're streaming it live to just the Facebooks, I mean, just the YouTubes. So anyway, today is a special day. We have special guest Tommy from Prime Corporate Services. And things have been. I wanted to get Tommy on to talk about the changes and things that we're starting to see coming down the pipe from our good friends over at the IRS. And Tommy, we'll talk about this in a minute. But, you know, they just got a huge infusion of cash to the tune of \$80 billion. And there's probably going to be much, much more coming. Coming. Right. And what's that going to be used for? Well, more audits, more hopefully to catch up with their huge backlog. But, you know, a lot of guys and gals who have been getting away with things in the past are not going to be getting away with things in the future. And a lot of us hard working entrepreneurs are going to be seeing more and more audits. And so it's really important we talk about these things, talk about entity structuring, asset protection, how do we plan for taxes going forward to make sure that we're not setting ourselves up for audits, for paying too much in taxes, paying our fair share, things like that. Right. So glad you guys are here, by the way. Let me just give you a link here before we go any further. I've been working with the guys at Prime Corporate Services for four or five years now, maybe five years. And I highly, highly recommend their services to anybody that I talk to. They do something special with my clients where they help them build an LLC for free. You just have to pay the state filing fees so every state is different. It could be a couple hundred and 300, maybe \$500 depending on the state that you're doing it in. But if you're doing vacant land, which I teach and do right now, if you do houses, if you do maybe buy and hold or big multi families, you need to have the right entity structures. And I'm not a legal expert. That's why I work with Prime Corporate Services. But it's kind of important that you have your entity set up, right? Maybe a different entity for different types of businesses that you have. Right. And so my friends at Prime Corporate Services will help you for free. Figure that stuff out. Okay. So I'm going to give you a link right now. Write it down and go to this link and just schedule a call with them. Go to Joe McCall dot com slash LLC Joe McCall dot com slash LLC to schedule a call with my friends at Prime Corporate Services. I've been working with them for a long time. I get tons of positive feedback and testimonials whenever I'm doing a coaching call or a live webinar to my list and I'm talking about perks. I get a lot of students that comment, Yeah, those guys are great. I just had my



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call. It's amazing. Thank you so much, Joe. So good. Check them out. Right. Joe McCall dot com slash LLC. Joe McCall dot com slash LLC. All right, Tommy, how are you, my man?

**Tommy:** I'm good. It's good to see you. Thank you for having me back. I appreciate you.

**Joe:** Yeah, this is probably your second or third podcast we've had you on, but this is a recurring theme. Every time we talk, Tommy, it's like, dig your well before you're thirsty. You know, it's not what you make, it's what you keep, right? And there's been a lot of changes going on with the IRS. And I think it's time for investors to start waking up, taking it seriously and understand what's going on. So give you give us a little context in history. What's going on?

**Tommy:** Yeah, for sure. Thank you for this. I mean, one of the things that I always say is when you really look at the IRS, the IRS is the largest collection agency in the world. Right. And when accountants and CPAs were initially created, those positions were created to protect the consumer, to protect the taxpayer. And nowadays, there's so much gray area that it makes it very difficult for anyone to really know what guidelines or what rules to play by. So every year, one thing that I'm looking for, what are the changes within the tax code? And for those of you that are watching, a lot of you may know I'm not a CPA or an attorney either. Here, I've got a full team of CPAs. We've got about 40 of my own staff now, and I've got a full team of attorneys and they do all the work. But I still like to come and present and give this information from both sides because it's scary hearing it from the attorney and it's here's what you do to stay out of trouble from the accountant. And what I mean by impacting behavior when there's tax code changes that happen, it's because they want us to act a certain way, right? So when COVID happened, they opened up business meals from 50% deductible to 100% deductible, knowing that business owners stimulate the economy. And that will hopefully. Inflate the restaurant income a little bit more. But yeah, \$80 billion funded into the IRS. And the hard thing that I have about this is it's being positioned as if it's money to go after the wealthy. It's money to go after businesses and individuals that make over \$400,000.

**Joe:** Which for a lot of you guys, that is a lot of money. Right. But it's also you and me. Right. And talk about that for a minute. It's not these guys, these big corporate fat cats that are living in these huge mansions and have these private jets. There's a lot of investors just like you and me, that are making gross revenues in that 400 to \$500,000 mark. And that doesn't mean you're necessarily rich and wealthy and living. What's the phrase, fat on the hog or something like that? Yeah, because like sometimes you've got a lot of business expenses. You may be showing \$500 in income or 500 grand in income, but that doesn't account for all of that. So like this applies not to just this small little limited view up here, right? This applies to a lot more people, a lot more blue collar, middle class people.



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- Tommy:** Here's one thing I want to share. I've got this little pie chart that my CPA sent me a couple of days ago said, talk on this. The Washington Post just barely released this and said, here's. The problem is the income levels are so broad, so we're talking about 400,000 and above. But the reality is very few people percentagewise actually make that. And the jump is from 400,000 to 1,000,000 and then 1,000,000 to 10 million. So that's a that's a very large jump that we're. But statistically, last year, what they did is \$75,000 or less. So individuals or companies that made less than \$75,000, made up 51% of the audience.
- Joe:** 51 made under 75 grand a year, made up 51% of all the audience.
- Tommy:** And then if we increase that number to 200. So if you made 0 to 200, it's another 26%. So if you made under \$200,000 that made up of 77% of the audits, let's say that there are some additional audits that increase for 400,000 and above earners. 77% is a lot to make up for, I think. I think the middle class feels this. If they're not structured properly, if they don't have their books in order and they're not understanding their profit loss the way that they should.
- Joe:** Okay. So talk about what are the things that the IRS is looking for, what triggers audits, and how can people be prepared for that?
- Tommy:** Yeah, I don't I don't have the exact percentages, but it's significant. When you run as a sole proprietorship or an individual, it just shows lack of knowledge. It's low hanging fruit, all things considered. So once you structure an LLC, it decreases your chance of audit. Once you have an LLC, that's taxes and ask or you're running money through an S-Corp. It shows that you have a team that shows that you have someone that really is in your corner backing you up that is going to significantly lower your chance of audit.
- Joe:** Okay, so explain what that means. What does that mean? Setting up an S-Corp and an LLC and all of that.
- Tommy:** Yeah. Even if you're just getting started, even if you haven't done a single deal. What the IRS is looking for is a couple of things. First of all, that you're showing the intent to treat and operate as a business. If you're watching this video, I would assume you have plenty of intent to be a real estate investor or flip land or whatever it may be, but that's intent. So structure your business from the very beginning, even if it's an LLC to show a profit at a loss or to show that you've invested into education, training, software, marketing, whatever it may be. I think it LLC is a great place to start though.



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**Joe:** Okay. I still sometimes wonder like why? Why do people even do business without an LLC? I don't know. But this is a business that happens.

**Tommy:** As soon as you have the thought that you want to be self-employed and you start putting some research and development into it, structure yourself as a business, and then from there, once you're making 50 to \$100,000 net or more, so 50 to 100000 is kind of your trigger look at switching the LLC so that it's taxed like an S-Corp. Because what that does is, first of all, statistically it lowers your chance of audit. Second of all, it allows you to pay yourself a salary or a distribution. And third of all, it helps you avoid half your self-employment tax, which is Medicare, Social Security. It's over 7% savings. You make 100 grand, 7000 in your pocket as opposed to handing it over in the form of taxes. That number gets large very quickly as you generate more income.

**Joe:** So this is why I hire smart people, because everything you just said, we're way over my head. Right. And it's not that it's complicated. It's just like, guys, we're busy, you know, we're doing. Feels we're making things happen. You don't have to be the CPA lawyer, attorney, tax guy, expert. Right. And in fact, if you're into real estate and you're doing deals and you are the tax expert, I am questioning how many deals you're actually doing. And I'm going to question how much money you're actually really making if you're diving deep into these details. This is why you need guys like Tommy to do this for you. Right. I don't understand still what an S-Corp is. I've got one, though, because I hired somebody smarter than me to tell me to get one. And they said, Joe, you're going to save. You're going to have 7000 more dollars in your pocket at the end of each year if you do this. Okay, fine. And I got to pay myself a salary. How do I do that? I had no idea. Well, I hire a company to do it for me. Right. So we have a payroll company, and we have you just. Here's my whole point. You want to. Don't keep on putting this off, right? Tommy, people like think, oh, man, this is overwhelming. This is intimidating. I'll worry about it later. Why is that a bad idea? To worry about this stuff later on?

**Tommy:** I was happy that we scheduled this for when we did because the time is ultimately now. If you were to break the year up into four quarters, January, February, March, quarter, one, April, May, June, quarter two, so on and so forth. At the end of the month, we're entering Q4, right? That's where you should have a sit down. That's when tax planning really should happen is at least in the fourth quarter of a year, so that your accountant or your CPA can break down your numbers, give you a profit or loss and say, Joe, great job this year. You did awesome. You had a bunch of deals. Either reinvest this money back into your business or you're going to pay it in the form of taxes. What marketing can you put out? What or what homes could you potentially purchase? What homes that you own? Could you depreciate or have some sort of cost segregation study around that's going to really help your tax



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standpoint so you can continue to grow and scale moving forward. That's the hardest thing about taxes is it's use it or lose it to a certain extent. Right. But that's the beauty of being self-employed, is it gives you a lot more control to invest your money back into your business, to obviously increase your future of your business and people.

**Joe:** Guys, we need to figure this out. Now, that was a really good point is we're recording as we've got three or four months left of the year. Right. And this is now the time that you need to start having these discussions. This is the time you need to start meeting with your accountant, your tax advisor, whoever, and say, listen, what's my tax bill going to be? And I've made this mistake and I'm telling you, I got in big, big trouble. I talked about it before my podcast where like, I don't know what my tax I'll figure it out at the end of the year. Right. I've kept my receipts sorta in a shoebox, sorta gave them to my accountant at the time who had no idea what they were doing, much less what I was doing. Right. And, yeah, I know you've heard my story before. I got in big, big trouble before because I didn't keep up with my taxes. I didn't even know what my taxes were. So it's important to know your numbers and tell me, would you say like even if somebody is just doing a few deals a month. Right. Is it even important for them to get this stuff? Talk about this stuff now with a CPA and think about tax planning. They're just they're still working their full time job right there. Still. They don't know if maybe they'll quit their job and start because they'll be making enough money in a couple of years. But they're not there yet.

**Tommy:** If you're doing one deal a year, these are things that you should absolutely understand, because even actually I take you don't have to understand them. Right. Joe, I know you well at this point. And I you know, your time is better spent elsewhere. But if you have a team that understands what to track, what to expense, the reality, a lot of accountants and CPAs don't file their own taxes because if they were to get audited, you oftentimes have an emotional connection. When attorneys go through a lawsuit, they use another attorney because of that emotional attachment. Accountants and CPAs are the same way. So it's on your link. Keep in mind for everyone that is just now hearing about Prime, we can help with the entity structure. We can help with building business credit and corporate funding. We have a full team of accountants and CPAs for the tax filing, the bookkeeping, and we do some estate planning as well. But even if you haven't done a deal, if you can understand the legal and the financial side of your business before you get into it, you're setting yourself up for a lot greater success long term and how to keep more money in your corner.

**Joe:** Okay. Talk about audits a little bit. What happens in an audit, Tommy? Why are they such a huge pain in the butt?



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**Tommy:** I mean, the hard thing about an audit is, is it can come in any shape or size, right? They can tear everything about everything apart. They can go back several years. It really opens up and exposes you if you don't have some sort of an alibi. And what I mean by alibi is some sort of record keeping. Right. If I was to give two pieces of advice to anyone from a tax. Standpoint, number one, have a system to track your expenses, whether it's everything goes on. One credit card, QuickBooks, Tax Apps. Bookkeepers have a system that you can commit to. That's the number one. Number two, hire a professional because ultimately it's an examination of your overall financial situation, whether that's you personally, whether that's you as a business. Regardless of the size, regardless of any of that. Part of the reason I don't think it's going to change for high income earners is a lot of times the higher income earners have defense teams to back them up. They have the resources, they have the financial ability to fight to prove that they did do what they were supposed to do, where under \$200,000 a year. It's pretty tough to hire the proper team and to get those ducks in a row. So the sooner you can organize your system, the more solid your foundation is, the easier to play by that game.

**Joe:** And the less likely you are to get audited. And then if you did, okay, here's everything you need. You know, it's all there. It's open book, right? You don't have anything to hide and just make sure you set it up right. Again that link everybody is Joe McCall dot com slash LLC Joe McCall dot com slash LLC. To schedule a call to Prime. Get your free entity set up. They're going to help you get the employee ID number, the EIN and that's your federal tax ID. They're going to help you get an operating agreement, which is the document that you're going to need. If you go and try to open up a business checking account. The bank's going to ask for that. They're going to say, show us your operating agreement and you're going to get your LLC filed with the right paperwork in your state. And they'll be talking to you about the all of the ways they can set that up. You just have to pay the filing fees. Now, one of the other good things that Prime Corporate does and I wanted to talk about this is business lines of credit. Now, this isn't something that you're going to get on the phone and automatically in 30 minutes, you're going to get \$500,000 credit line. Right. But talk a little bit about the process that's involved with that. And this is really important. I want to spend some time on this, guys, because there is an incredible opportunity here. If you can learn how to get business lines of credit, you can now become a lender. You can now lend money on other people's deals. I've been teaching land investing now, doing land investing for three or four years. I've been teaching it for about six months. And I'm getting a lot of students that are saying, Yeah, I want to be a land investor. They're getting into it and they're realizing, Yeah, okay, this is cool, but this is more work than I want to do. Or they're saying things like, you know, I'd rather this is great. I'd rather just lend money to people who have deals. And so now what we're seeing is in the Facebook group and in the private student community, they're starting to see people that are like, Yeah, I'd rather just lend



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money on deals. Anybody, if you got a deal, let me know and I'll lend you the money on it. Right. Well, guess what? You can now with if you've worked with companies like Prime Corporate Services, you can get established business lines of credit and you can start lending that out on deals, which is an amazing arbitrage type of opportunity. Right. And this is kind of what I kind of led this podcast with is digging your well before you thirsty. If you're starting to starting to do deals and you wait until you have a deal and then you go look for money, that may be too late. This is a process you need to start working on now so that when you do find a good deal, hey, we're ready to go. We can close on it quick. You don't have to just wait around and start getting nervous and panicking and trying to find somebody with money. So, Tommy, talk a little bit about how does the helping people establish lines of credit business credit work?

**Tommy:** Yeah, that's the best time to ask for money is when you don't need it. You're absolutely correct. Right? Oftentimes when you want to get a home loan or a vehicle loan, it feels like a lot to go through that process in a lot of cases. But building business credit is not rocket science. It's a process, right? Everyone has a legal name, a Social Security number and a credit score in the US and we want to do the same thing for the business. Make sure you have that legal name, you have all the documentation that I number to open up a bank account, but you can build a separate credit profile called a payback score, where at first you can get some starter accounts there, accounts that no one wants write gas cards, apparel cards, you lie, and things of that nature. But it really inflates your credit profile. So then you can start to get business credit cards. And then with major banks, right? Chase, Wells Fargo, Bank of America, American Express. And then once you go through that process, you can start to build up actual lines of credit. And it's one more way to just open the doors to have more access to more funding. Right. So I think it's a huge advantage to have those additional lines. I, I just took out a home equity line of credit on a house that I don't even plan on using just because I don't need it. Now is the best time to get that home equity line. For me, now is the best time to expand my credit card limits and increase my loan limits just in case opportunities present themselves, which they always do, and opportunities are always there. And the more funding you have, the more opportunities that happen to present themselves to you.

**Joe:** Okay, good. So what do you guys do there when you get on the phone with somebody and they want some help establishing these business lines of credit? What's the step one? Step two, what are some of the processes that they go through?

**Tommy:** So we actually have a full 12 month program. It's a business credit development program where you get assigned to working with a one on one advisor and they actually walk you through the steps of applying for a DUNS number, making sure that your type of business is



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in their correct, your bank account is set up correct. And then we help you understand the four or five accounts that can really inflate that credit profile as quickly as possible, so that in 60, 90, 120 days, you can have a good enough credit profile where you can start to get business credit cards, your major credit cards. It does take about a year to get an actual line of credit, but even with business credit cards. We have clients that are using it for marketing pieces, fixing flips. The options are really endless. We had someone the other day that if you have an 80 paid X profile on your business credit score, Mercedes Benz oftentimes will approve it if the income's there. So we had a client that filled up that 80 score and went right to Mercedes and got himself a Benz. I don't I don't recommend everybody do that. But there's a lot of cool things you can do from the business side where it doesn't hit your personal credit or your personal funds.

**Joe:** He's using it for business.

**Tommy:** Correct. Which is also a tax deductible expense for him as well. It was over 6,000 pounds going back to we're all over the place. But going back to the tax side, section 179 says that if you have a business vehicle that's over 6,000 pounds, you can depreciate and write that off in the first year. But even if it's under 6,000 pounds, they just increase the mileage deduction for your vehicle as well because gas prices have been through the roof. That's what I mean by the tax code is meant to impact behavior. COVID threw a wrench in things. Gas prices throw a wrench in things. Oftentimes. That's why our tax code changes happen to benefit entrepreneurs like you and I, you're very interesting.

**Joe:** So I forgot my question. Well, okay. It'll come back to me. Give us some tips. Give us some tips, Tommy, on ways that we can reduce the amount of taxes that we're going to pay in 2022. What are some things we can start thinking about now to help us?

**Tommy:** Yeah, you still have time. So if you're a currently if you don't have an LLC set an LLC or one, if you have an LLC and you've generated 50 to \$100,000 or more. Contact us and let's talk about a review. On if it makes sense to change your current LLC so that it's taxed like an S-Corp so that you can save that \$7,000 per \$100,000 if you have insurance. Ask your insurance provider if it qualifies for an HSA or a health savings account. That's a quick way that you can fund an account if you're single. It's about \$3,600. If you're married or have a family, it's about \$7,500. That works as an excellent tax deduction and can save you thousands of dollars in taxes right off the bat. If you have a profitable business and you have a significant other that you could potentially put on payroll or reimburse them for their health, that's another way to save a couple thousand dollars in taxes. Now, ask you if you're in a position where you can put money into maybe an IRA or a Roth IRA for one, and defer those taxes every year. I try and maxed out my retirement accounts not because I



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necessarily want to rely on the retirement account, but I feel that I'm going to be making less money than I will be now. And if I can defer those taxes now and push those down into the future or use them as an investment vehicle for future deals, I would rather do that and put myself in a position where if I'm making more money when I'm 60 years old, that's a good problem to have. I welcome good problems to have with open arms.

**Joe:** So do you guys actually set up help people set up the IRAs yourself or do you refer them to a custodian? What do you.

**Tommy:** We don't, no. Oftentimes you can just talk to a financial planner. They're everywhere nowadays. I feel like between life insurance and everything else, we don't do that side of it. But we can certainly help with the estate planning portion to make sure it's all protected for future legacy. And we can talk to you about the best tax practices with our team of accountants and CPAs.

**Joe:** Guys, I know I get it. This is boring stuff and talk about it, right? This is no fun. I can only imagine what all day. Tommy is probably sick and tired of talking about this stuff, but actually, I'm just joking. This is so important. Okay, don't just blow this off and say I will figure it out later. I'll worry about it later. I got these ten sellers I need to call today, but you've got to just like just schedule this call Joe McCall dot com slash LLC and give Prime Corporate Services a call. Get them on the phone and talk to them. I do make a little commission on it. It's not much, but I'd still I highly still recommend these guys even if I didn't get paid. I've known Steve and Tommy for a long, long time over at Prime Corporate Services and we're friends. And so I highly recommend their services to them. I mean, we're coming into the fall of 2022 as we're recording this, it's important to start thinking about this. Even if you're listening to this in January of 2023, it's never too late to get started with the proper entity structures, the asset protection, the tax planning and the business lines of credit. Because if it takes 12 months to get fully established, business lines of credit start now, right? Don't wait six months to start. Start that process now.

**Tommy:** Last month. We got over \$4 million in secured business credit and corporate funding for our clients and it's been awesome. Obviously we've got quite a few people going through that program, but it's been an amazing process. I love. We're a little bit swamped with it, but we've really tried to keep the personal touch of you, get the free 60 minute consultation. Remember that consultations for you, if you're brand new, tell your advisor that you're speaking with. I'm brand new. Will you talk to me like a third grader? If you're a little bit more seasoned and you have entities and maybe you're already doing multiple deals a month later, let them know that so that you can take the most from that phone call and really maximize whether it's the protection or the tax saving side.



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**Joe:** All right. Very good. Tommy, anything final words you want to say here?

**Tommy:** I'm like, make sure your planning starts now. I hate that so many people that I talk to on a daily and a monthly and a weekly basis wait until January, February, March to put their taxes together. Because I really cost people a ton of money. If you don't have a system, talk to us about it. If you feel like you're making too much money and you have too many transactions and it's not worth your time to hear you say, I need to call these ten, ten buyers and sellers, whatever it may be. Where is your time best spent if someone else can be doing this tax work for you and the monotonous work and the stuff that really is boring to a lot of people, where's your time? Best That's kind of my final message that I'd love to work.

**Joe:** Good. Well, thank you, Tommy, very much for coming here again guys the link Joe McCall dot com slash LLC Joe McCall dot com slash LLC. Go schedule a call right now and talk to our friends at Prime Corporate Services. Thanks, Tommy. Appreciate you, man.

**Tommy:** Pleasure as always. Thank you for having me.

**Joe:** All right. We'll see you guys. Later, everybody.