7 Secrets To Keeping More Money In Your Pocket

Karla Dennis
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Fred Smith: This is Fred Smith and we're here today again with Karla Dennis of Karla Dennis and Associates and we're just going to jump right in to the seven secrets to keeping more money in your pocket. How are you today Karla?

Karla Dennis: I'm great Fred, how about yourself?

Fred Smith: Unbelievable, so tell us, why exactly did you mention seven secrets and how can we basically just make more money with this?

Karla Dennis: I mentioned the seven secrets basically because the importance is I want everybody, every tax payer, to be able to reduce their tax bill. There are so many different secrets, but I chose seven secrets that I know of these seven, there's gonna be something in there for every single tax payer, to reduce their taxes.

Fred Smith: Okay, so you've been doing this for over twenty years.

Karla Dennis: I have.

Fred Smith: Why these specific seven? How do they tie into the actual tax strategies that you do at your practice?

Karla Dennis: I chose these specific seven because as we have been doing this for a very long time, of the tax strategies that we utilize, these seven fall out and are used all the time. They're pretty commonplace, and even if a person doesn't come to me to do tax strategy, they can use

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these secrets. I want to just give these seven secrets away so that people can start saving money today.

Fred Smith: So even if they didn't use you, what's the average result that anybody can expect from this process?

Karla Dennis: The average result, we keep statistics on that and the average person saves $4,900 per year in their tax bill just by doing it themselves on these seven secret here.

Fred Smith: Okay so let's just say I'm a high net worth individual with multiple properties, would it be more than $4,900?

Karla Dennis: Oh absolutely it is just a massive amount of money. We've taken people that are making millions of dollars and dropping them down in the 15% tax bracket, we are saving people thousands of dollars per year and it's all relative to how much a person makes but you figure, if you're an individual making $50,000 a year and you're saving $500 a month, that's $6,000. If you're making $150,000 a year and you're saving $15,000 to $20,000 that's more than 10% of your income, so it's relative, but it's extremely, extremely important to save your money because you're a better steward of your money than the government is.
Fred Smith: So what resources are needed in order to get all of these seven secrets fulfilled?

Karla Dennis: The resources that are needed? Wow, that's really a great question here. When you're talking about getting all these seven secrets fulfilled it really boils down to having some income on your tax return, possibly a business; and really just using the strategies we implement. It’s not that difficult- knowledge is power and speed is power, they need to do it today.

Fred Smith: Okay, so let's just jump right into it, the number one that you have is your income shifting, so tell us a little more about that.

Karla Dennis: Income shifting is very important and here's just a simple strategy where you just shift income from one entity into another entity to reduce your tax bill, a lot of times business owners, for example, will create an entity, they never take an opportunity to even look back and see, is this still the proper entity for me to be into today? They never think about opening up multiple entities or layering their businesses with different businesses. That is such a simple tool that really can save you thousands upon thousand of dollars.

Fred Smith: So, give me a specific example of how I could use it both as an individual and both as a business owners.
Karla Dennis: Absolutely, say you're an individual and you want to do some income shifting what if you shifted some money into a non profit that you owned yourself? A lot of us are out here giving back to the communities, doing things selflessly; that we want to help individuals. If you had nonprofit organization as an individual and you can, you can shift money into your nonprofit, get an immediate tax deduction and turn around and pull that money back out later if you need to.

Fred Smith: And what if I'm a business owner?

Karla Dennis: If you're a business owner, then really the sky's the limit, I mean if you think of businesses, for example, you think of all these big businesses, Proctor & Gamble, Apple; they have multiple, multiple businesses connected to them. As a business owner, for example myself, I have Karla Dennis and Associates, I have other businesses so I can shift income from one business to a next and it's limitless. We can shift income from one tax year to a next, to where we can defer, defer, defer income taxes, legally, within the code and really keep the money in your pocket.

Fred Smith: And why is that a powerful process in relation to the strategic tax plan that you offer?
Karla Dennis: Because when we're talking about doing it strategically it's really; we're planning to lower your taxes, but we have to do it strategically in relation to whatever else you have going on in your financial world. It's so important that I get to know you and drill down. These seven strategies that I'm giving away, they're very cursory. Anybody can use them, but when you really come in and plan with me, I'm going to drill so far down and get granular with this that it's going to be so unique to you it's going to be like your fingerprint and we're going to be sure that your taxes are legally low, based on the tax code, and you're going to see such a significant difference that you're going to wonder what took you so long to get this done.

Fred Smith: Okay, so anything else you want to add on number one?

Karla Dennis: I think we're golden there.

Fred Smith: Okay cool. So, let's talk about number two, you also mentioned a concept called income splitting, tell us a little bit more about that.

Karla Dennis: Absolutely. Income splitting. This is where you're going to split income between people in your household, I think sometimes we just have this “me, me, me” mentality but we've really got to start thinking bigger picture, so for example, if you have multiple people
in your household, if you own a business, why not pay some of the other people in your household and keep them in a lower income tax bracket. Here's a good example of that, if I wanted to take about $150,000 out of my business, I can do that on a W-2, for example, but maybe that income is going to put me in the highest tax bracket. Maybe I want to share that income with my children, other people that I'm responsible for supporting, if I give them a W-2 at a certain limit, they won't even have to pay income taxes if I keep it under, for example, the standard deduction

Fred Smith: Okay so, as far as the income splitting, in relation to the strategic tax plan, what are some things that you've seen that are an outcome that results both of those together.

Karla Dennis: Oh absolutely, I'm so glad you asked that question. When you do income splitting I have seen families pay their children money, the children take that money and pay for their college, therefore they're getting a full deduction for their college expenses. I have seen family members pay their kids enough money to pay their kids rent. This is such a powerful tool to get anything that you currently not get deducted deducted through the tax code, and here's the thing, yes we're going to make sure that these kids [inaudible]
00:07:22] have the proper job descriptions we're going to dot the I's and cross the T's, we're going to follow the tax code according to how it's written. And guess what Fred? Uncle Sam? There's nothing they can do about it because it's legal, it's in the law.

Fred Smith: It's legal, ethical and moral.

Karla Dennis: Exactly.

Fred Smith: Okay so, as far as number three; turn a hobby into a small business and save hundreds of dollars a year in taxes and sometimes thousands. I mean, when I saw that I was like, "wow, how do people do that?" because I know at one point in time I was told that if I don't have a certain structure then I had a hobby versus a business, so what does that look like?

Karla Dennis: Right, so here's the rules regarding that. When you have a hobby, it doesn't even have to be a hobby if you have a business and you don't make a profit, the law says the IRS may come in, and the keyword is “may”, language is so critical when you're talking about the tax code. IRS may come in and reclassify that business as a hobby, so the key is; what are they looking for if they potentially come in to reclassify that business as a hobby? And one of the things they're looking for is are you in the pursuit of income and
how is that further defined, in the pursuit of income means are you out there advertising and marketing? Are you looking for income?

So those of us that are out there doing these great hobbies that we really are making money off of, because a lot of us, for example I have a girlfriend that does scrap-booking, I pay her to do my, to do scrap-booking for me. That's a hobby she has really turned into a business. Now I have her doing that as a legitimate business on her tax returns, we got her a simple business license, she's running through her home office deductions, she's running through all of her supplies, all of her copy paper, her car expenses, through that business now. And yes, she is running at a loss; but is it okay for her to be at a loss? If she's in the pursuit of income it's okay for her to be a loss. So using that loss against other earned income on our tax return is a gold mine to reducing your tax bill.

Fred Smith: So, just to sum up for the average layman; what you're telling me, is that through that strategic tax planning, how does that work what are you looking at specifically?

Karla Dennis: Oh absolutely, so when I'm in the strategic tax planning mode, when I get to know the client I want to know what do you do? What are your hobbies? What are you doing everyday? Give me a
picture into the life of Fred Smith, what does Fred Smith do
everyday? When you talk to me, when I get to know you and
understand you- I'm going to abstract pull out the things that can
get you a tax write off. You don't need to do anything but talk to
me, lean in to me, let me really get to know you; cause I'm going to
dig in deep, I'm going to get the correct information and I'm going
to show you the things that you're doing, how to get a tax write off,
how to turn your likes into a business; versus a hobby.

Fred Smith: Okay, anything else you want to add on that one?
Karla Dennis: I think that we pretty much handled it.
Fred Smith: Okay so number four is maximize your business deductions by
making ordinary expenditures a business deduction, please tell me
what that means in English.
Karla Dennis: Absolutely. So here it is, business people a lot of times forget what
hat they have on, and when I say what hat, when you're a business
person, you have to think of yourself as a business person all the
time. When I say all the time: when you're out and about; when
you're out having meals are you talking about business? When
your out purchasing things are these things you can use as a
business?

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We spend so much money on everyday things that we can be using as a business write off. For example we use our cell phone, we can use that as a business write off. How many people have a computer at home? A laptop that they’re carrying around? A briefcase, a smartphone, all of these things that we have purchased for personal usage really has served a dual purpose. A lot of us are using them for business and even as a W-2 employee, working for an employer, where you have a job, you’re checking your emails at home, because that’s just the game we play these days, we’re on call 24/7 as an employee, checking our emails, staying connected to the office, a lot of us are working from home as W-2 individuals so a lot of the day to day expenditures that we have, I ask them to list them down, when I’m doing a strategic planning, list them all down on paper, I want to see what your monthly expenses look like. You don’t have to decide, I’m going to help you and get those expenses as a tax write off.

Fred Smith: So based on that, and you read my mind on that one, so going into that, your how-to through this strategic tax planning is that you simply go through your process, your checklist and based on how
you know me, my operations, my lifestyle, my integrated lifestyle and all of that stuff; you pretty much help me sort it out?

Karla Dennis: Right, I help you sort it out, because I'm the professional. I don't expect you to know, all I expect you to do is talk to me; and I think that's part of the challenge that we have with tax professionals and it's really getting into those conversations and being comfortable enough to tell me what your life is about.

Fred Smith: Okay, so number five is, know the available tax credits to use, including the ones that are not common on a tax return to reduce your taxes dollar for dollar. Now, I still don't really understand what that looks like because again I only do this once a year; sometimes several depending on the business interest or whatever. But, through this strategic tax plan what does that mean?

Karla Dennis: Absolutely, let's define a tax credit. The simplest way to define a tax credit is to go back to when, or if you currently are a W-2 employee, and as a W-2 employee you're having withheld out of your paycheck federal income tax or state income tax, that federal income tax are real live dollars of tax liability. A tax credit is exactly like that, it is real live dollars to you. It is different than a tax credit.
deduction, it is actually a credit, a dollar for dollar credit, like income tax withheld out of a paycheck.

Fred Smith: So just can I just jump in real quick?

Karla Dennis: Absolutely.

Fred Smith: Is that like a rebate?

Karla Dennis: It could be like a rebate. Some tax credits are refundable, some tax credits only reduce your tax bill. It's two fold so to answer your question it is similar to a rebate.

Fred Smith: Okay, yeah because that really has confused me, but when you’re talking about the tax credits available that’s based on... is there any grandfathering? Or is there anything ... because I think you’ve mentioned before in a previous conversation that sometimes people are grandfathered based on current tax codes- I don’t understand that stuff.

Karla Dennis: Right, absolutely. So tax credits can be grandfathered in, and when I mean grandfathered, we are always in a changing tax code, and we are people- we are in a changing tax code all the time; there are some laws; based on when you chose to utilize them; that you are grandfathered in to that law all the time.
If you want to think about it, it’s kind of like you buy a pass to some entrance to some amusement park and when you brought your pass you got all the days to go to DisneyLand, you didn’t have any block days, you could go seven days a week but now when they sell their passes they have certain days that are blacked out, you can’t go on the weekends, you can’t go for certain hours; well if you have the old pass you’re grandfathered in to go all the time. The tax code works the same way, some tax credits individuals depended on when they opted into those credits are grandfathered not those credits and some people are not, that’s why it’s so important to understand tax credits. For example, the educational credits, these credits rolled in, and for some individuals they are still available to them but others they have gone away. So, it’s just really important to understand timing of these tax credits and deductions.

Fred Smith: Thank you, that really cleared that up. Okay number six is build your savings and make sure the interest is tax free by having the right savings vehicle. What does that mean?

Karla Dennis: A lot of us want to be able to save our money, grow our wealth and really get ourselves into a stable financial position. A lot of times what I see on a tax return I see an individual that has money in
savings, I'm seeing interest income on the tax return, I'm seeing dividend income on the tax return, which is great- because that person has put themselves in an excellent position. However, now that dividend income, the earnings on your money, is being taxed again. Your money was taxed, now your earning are being taxed, so now we're getting double taxation. My suggestion is always going to be to drop that money into a tax vehicle. For example, life insurance policy that doesn't have it where the interest is taxed every single year, that compounding interest- interest on top of interest- is how money really grows. If you're getting taxed on top of the interest you're not growing as fast as you should be.

Fred Smith: So I'm kind of getting ... well I am- I'm getting a haircut more than once, twice.

Karla Dennis: Yes, you are.

Fred Smith: So that produces a headwind for me.

Karla Dennis: Absolutely.

Fred Smith: Okay so, as far as, in relation to the strategic tax plan, you also include insurance as an investment vehicle?

Karla Dennis: Well, one of the things we do in a strategic tax plan is we're looking at you're entire financial picture. And this is what's really
important, we're looking at the entire financial picture and part of your financial picture is to put a stable base together, and when you're looking at a stable base we have to ensure against certain things so one of the things that we're going to look at is whether or not a person has life insurance, and do they need to have life insurance to protect the earnings of their interest- and it's just very important. We're not going out telling a person to get life insurance for the sake of having it, does it play into your overall financial picture; does it lay into your overall moral base; is it something you need to have as an individual? This is why I said strategic tax planning is as unique as your thumb print. What is good for you Fred Smith may not be good for Karla Dennis, that's why it's so critical to really drill down. But I do give these seven strategies because they are very useful to the average person, but the real key to unlocking the code to your financial success and reducing your tax bill really lies in the strategic tax planning.

Fred Smith: The final one, which initially I didn't understand but actually going through the interview and watching you work; you say use a qualified tax strategist who is licensed as an enrolled agent, tax attorney or CPA. They need to eat and sleep taxes, if they don't
read the tax code for fun, they may not be passionate about taxes.
Please tell us, because I know based through our other conversations you mentioned the four basic table ... table, you know where I’m going with that ...

Karla Dennis: The basic four pillars with a tax person.
Fred Smith: Yeah, the pillars.
Karla Dennis: This is very important because the average public, the average tax payer doesn’t really understand that there are four different types of tax professionals out there.
Fred Smith: Please break that down.
Karla Dennis: I really want to do that. We have for example, a person that's licensed to do tax returns. We have a tax preparer; they’ve gone to school, they’ve learned how to do a tax return and they can fill out the forms. These are your people that open up shop from January 1st the April 15th they are tax preparers, they may or may not even have a tax license and that's something else you need to check out, are they a licensed tax preparer? That’s pretty much the simplest form.

Then you have the individual who went to school, maybe gotten their degree in accounting and they are a tax accountant. They have a license to
prepare returns and they have a degree in accounting so they understand finances, they understand accounting, they understand balance sheets and they can help a business person. That’s a next level tax person.

Then you have the third level tax person that understands tax procedure. How does the IRS work internally? This person is really up close and personal with the Internal Revenue Manual, the IRM. This is someone who has gone next level who has chosen to study IRS tax procedure. This is very uncommon for someone to want to do this, but when you go to battle with someone, and when you’re dealing with the IRS it is truly a battle, you need to understand their battle code. You want to understand what they know, so understanding the Internal Revenue Manual is very important.

The fourth tax person, is someone that understands the tax code. This is the Internal Revenue Code, IRC. This is different from the IRM, the Internal Revenue Manual, this is someone who understands tax law. This is someone that is really passionate about the law, they read the code, they read the House reports, they read the Senate reports, they’re reading these reports before they become law, before they become code. This is where I really want to say to you,
I have really become a student of this game, I have my undergrad degree in accounting, I’ve got my enrolled agent license, which licenses me in all fifty states to prepare tax returns. I have gone to the National Tax Practice Institute so that I can learn tax procedure, I understand the Internal Revenue manual, I read it all the time because it does get updated and I have my masters in taxation- so I understand tax law. I have all four pillars. This is what I do; I eat and sleep tax code, I’m passionate about this stuff.

Fred Smith: How does that tie into the overall tax strategy? Before you answer that, those four pillars make the overall table top of the tax strategy, correct?

Karla Dennis: That’s exactly correct, it does make up the overall tabletop, and when you have those four pillars, you can really, really ramp a person’s tax strategy, I can see the strategy starting from the code all the way from how it’s going to show up on the tax return, what IRS is going to think and see, when they see your tax return, I know how to structure it so that it falls into the Internal Revenue Manual, I know how to answer the questions already before you get the audit. We want to try and avoid an audit, but if we get an audit we can handle the audit, it’s going to be legal because I understand the
law. It’s going to be balanced out to the “T”, because I’m an accountant at heart I have this pretty down and I am very serious about it.

Fred Smith: So that’s what makes you more unique than anyone else out there because you have the four pillars and you have created this process called the Strategic Tax ...

Karla Dennis: Planning. Absolutely, I’ve created a proprietary process called strategic tax planning were it utilizes all four pillars. It utilizes my tax preparation knowledge, my tax accounting knowledge; my Internal Revenue Manual knowledge and my tax law knowledge. It meshes that all together to give a tax payer the least amount of tax liability within the law and is done in a way that puts the client at ease, and that’s the key, we want to ease their stress.

Fred Smith: So based on this conversation that we’ve had, what are some of the challenges that you’ve seen people not only not knowing the seven secrets to this foundation; but what challenges have they also had in relation to when they come to see you?

Karla Dennis: The challenge really is, unfortunately, they don’t know the type of person that they need to be dealing with. They think a doctor is a doctor but there are specialties out there. If you’re looking for
someone who really understands strategy, you’ve got to look for someone who has the four pillars and I think that the average taxpayer didn’t even know that these four pillars existed, and they’re so frustrated by the time that they come to me, that I have to spend a lot of time really knocking that edge off of them and relaxing them and making them really realize that they have now found their solution.

Fred Smith: So, the other keys that you found to unlock the doors of success, what are some of the other things that you have found that really help people grasp what you’re saying? What do you say to them, what does that look like?

Karla Dennis: Absolutely, so I take them through my process and the process really starts out, it doesn't start off with the numbers. It starts out about getting to know them as a person, what is it that makes them rock and roll inside, I bring the human element to the tax code and I think that’s one of the fundamental keys as to why people enjoy doing business with Karla Dennis & Associates, because we want to get to know you.

Once we get to know you our mind maps out to the different strategies, we're going to review prior year tax returns, we're going to assess your
current situation, just like if you walked into a doctor's office;
what's the first thing they do? They get your baseline, your blood
personal, your temperature, are you in pain right now, we're going
to triage the pain right now, and really get you some real relief, and
when I say real relief I mean the real solution to your problem.
We're going to make it tangible, so that you can feel the relief and
most people are going to feel the relief because they're going to
have more money in their pocket. They're going to know for sure
that they've gotten the solution that they need to have.

Fred Smith: So what are the next steps. How does someone get a hold of you
right now?

Karla Dennis: The next steps are, you can call me at 1-800-878-4051, you can go
directly to my website at www.karladennis.com you can opt in to get
a copy of this report, I think it's imperative that you do so, share it
with your friends and family, I think we need everybody to become
a smarter tax payer, put some more money in your pocket and go
do what you enjoy doing. Go live your passion.

Fred Smith: This is Fred Smith and once again we thank you again for your
time, so go out there and make a difference.