Ep #301: Marcus Crigler - How to Pay Taxes Like Donald Trump

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Dr. David Phelps

Dentist Freedom Blueprint with Dr. David Phelps

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David Phelps: Hi David here. In this episode, I'm having a conversation with Mr. Marcus Crigler, who is the founder and CEO of BEC CFO. Marcus is a tax expert. He runs a chief financial office or organization for high-income, high net worth businesses and individuals. We're talking today about the news that came out from the New York Times recently regarding Trump paying very little in taxes in the years of 2017, 2018. We dig into how that is, how that's possible, what that means. Really the fact that the IRS is really a playbook that we need to learn how to utilize. It's a playbook that you need to know the rules and understand how they work, especially if you're in businesses that allow for the tax deductions that expansion development allow for. We also talked about the three different types of tax professionals that you should consider having in your life and why you need more than just one. First half is today and the second half we'll talk about at the end of this recording.

Good day, everyone. This is Dr. David Phelps of the Freedom Founders Mastermind Community and Dentist Freedom Blueprint Podcast. Glad to have you back today. I've got a good friend of mine, a mentor, a seasoned tax professional. Also

CFO in the space, Mr. Marcus Crigler. Marcus, how are you doing, sir?

Marcus Crigler: I'm excellent, David. Good to see you.

David Phelps: Always good to see you, sir. Marcus, you and I made our first connection a few years ago at a mastermind with a lot of, I just call them high caliber real estate people. You've been a big part of that because you bring the element that everybody needs. I don't care if you're in real estate or business of any kind. But understanding and navigating the myriad of the tax code today, which is just volumes and volumes and volumes. And it's so intricate and it's so ambiguous and you know better than anybody, but a lot of our listeners are also in business and a number of our people, Marcus, also are investing more so as passive investors in real estate. Some in equities, turnkey properties, syndications or some funds. And also in the passage side or the debt side in notes receivable, that sort of thing.

So I know everybody's always thinking about taxes and just this week with the election campaign and full swing right now, there's always stories about the candidates, right? And the big one this past week was an article up from the New York Times. And we won't debate the article being accurate or not. Nobody knows for sure. But let's just take the tenent of it. They said that Donald Trump, the President Trump, paid somewhere around $750 of net tax on his I think they said 2017, 2018 tax returns. And of course there's a big blow up because Trump should be paying a lot more. I don't want to really go down that road of what's fair and what's not fair.

But let's take it this way, Marcus. Whether he did or didn't, the tax code has a lot of elements in it that are written for various reasons. But I think primarily a lot of incentive for businesses or entrepreneurs to take risk. That's a big part of it right? To take risks because if you're a capitalist on any level, you realize that in order for the economy to expand and for people to have higher employment and for opportunities to expand, there's got to be a reason for capital, meaning people who have capital, investors, to put that capital out there. And taking the risk means sometimes there's going to be losses. We know that, right?

Marcus Crigler: Absolutely.

David Phelps: And if there's losses, then how can that investor recoup some of that in some way so that he or she doesn't quit, pull back and go, "I'll never do that again. No, I'll go back and I'll try it and maybe I'll do it better the next time." Right? Is that pretense? Give me your take on that.

Marcus Crigler: Yeah, yeah. You're exactly right. So first, nobody knows how many pages are in the tax code. It's changing every single day. It's complex, it's complicated. You can get in as many rabbit holes as you want to when looking at the tax code. But when you really think about it, the tax code is simply a playbook. It simply tells you what the IRS or what the government wants you to do and what they're willing to be a partner with you in. And when I say partner, they're a partner no matter what. It just depends on how big of a partner they're going to be. And if you do those certain things, they're going to be a little less of a partner, which is a good thing for you. And if you don't do those things, they're going to be a bigger partner and they're going to own a little bit more of your business or a little bit more of your profits and that's what we call taxes, right?

So I think that's the core is understanding that playbook and I've always been of the opinion that you don't run your business to save money in taxes. However, you should always be cognizant of the taxes you're generating when you're looking at investing, when you're looking at anything outside of your ordinary business. I know most of your clients are high income medical field doctors, right? Dentists mainly, maybe some chiropractors, that kind of stuff in there. I'm not saying go out and change your entire business because the tax code isn't as preferential to you as it might be a real estate investor. But when you look at investing money, now you should be thinking about after tax returns on your investment, not just return on investment. There's a big difference there when you're looking at actual returns that you're getting on your money.

So I think that's critical when you're looking at investing in any deal. And that's why we've always been a fan of real estate. That's why we connected so well, because our thought processes were the same. Real estate typically is a little bit more tax advantage because the playbook, otherwise called the IRS tax code, likes real estate. They like people investing into real estate. They like people creating homes, creating jobs. And that ultimately provides a stimulus to the economy, which is why they will partner with you a little less in that business. And that's why we're big fans of investing, certainly because you get good after tax returns.

David Phelps: So for business owners/investors who are more active in a particular sector. In other words, it could be in business. I'll just, for our dentists. There are dentists who are very good at creating multiple practices. They're building a conglomerate, right? They're not so active in the chair. They're going to take more of a business mindset, which is fine to their benefit. But they're building out businesses. So they're expanding and they're going to have assets that the IRS, the playbook as you said Marcus, allows for different types of depreciation, offsets. I mean you know it implicitly.

So when someone's expanding like that in a business mode or a real estate mode, development mode, expanding. Again not to bring Trump back into it, but let's face it. The guy has always been building, building, expanding. So when you're in that realm and being very active, active in that pursuit, versus passive. We'll get to passive in a minute. But active, then there are a lot of I'll just call it offsets. Deductions, offsets that accrue to that activity. And so is it feasible, is it feasible, and again not judging Trump's situation right or wrong or is it true. But is it feasible for somebody who we might look at who could be a millionaire or multimillionaire, maybe a billionaire who knows, to actually pay in some years, little or no tax? Is it feasible?

Marcus Crigler: Oh, absolutely. Absolutely. When you look at the fortune 500 companies, about 18% of them in any given year will zero out their tax bill. So you think one in five of these billion dollar conglomerates are going to pay little to no, and we're going to stay specifically income tax. Payroll taxes there's a bunch of other taxes that they pay. But we're specifically talking about federal income tax in this case. And about 18% or one in five roughly the fortune 500 companies in the world, zero out their tax bill every single year. So there's no doubt if you play by the rules that the IRS puts out there for you, you can certainly get that down to zero. Why? I get asked this all the time and it's always an interesting conversation, whatever side of the table you're on really doesn't matter here as much as the principle behind it. Why the IRS does it this way.

And ultimately, when you look at those fortune 500 businesses, you're right, they are getting huge tax benefits because they're expanding, they're growing, they're employing. They're doing things that our government can't do, right? There was a time where government was in housing and they failed miserably. That's why they allow such great benefits for real estate developers because the government figured out they can't do it. So they partner with developers to get the work done. Same thing with anything. Same thing why Amazon can go out and get research and development credits that are hundreds of millions of dollars to zero out their tax bill, because the government knows that if they're continuing to research and develop, they're going to continue to expand. They're going to continue to hire. They're going to continue to put more Americans to work. And that's what makes the economy go. Not some of the other things that we hear in the news. So that's the core as to why people can zero out their tax bills. Theoretically, they're doing something that the government can't and the government's rewarding them for it.

David Phelps: And so when we hear all the time Marcus, that taxes aren't fair or wealthy people don't pay their fair share. I mean it's a lot of class warfare stuff, and again political that I'm not going to bring into this discussion. But the fact is you said, it's a playbook that's been developed to incentivize activities in the economy that the government understands that they can't do. So that's a big part of it. As long as people utilize those opportunities in the right way, then that's what it's promoted to do.

Marcus Crigler: You're exactly right. And I call it a playbook because I'm a sports guy. Sports have been my background forever. And I always think of it like this, there's a playbook and there's a playbook that'll tell you how to win in the tax game. Just like football right? There's a playbook. I'm a big Chiefs fan, I'm from Missouri. It's a good time to be a Chiefs fan. Okay. So go Chiefs. But, if they go out and they've got a playbook, but if they don't execute the plays, guess what? They're going to get beat. Doesn't matter what's in the playbook. Same thing with the IRS tax code. If you go out and you ignore the tax code, you don't play by the playbook, you're probably going to lose and you're probably going to get your lunch eaten a little bit.

And that's why we talk about, yeah one in five of these fortune 500 companies zero out their tax bill, but there's four in five that don't, right?

David Phelps: Yeah.

Marcus Crigler: And those four in five aren't playing by the playbook the way they need to. So. I think this makes a lot of sense because I want to transition and I know I'm transitioning in your podcast, so I'm sorry. But I think this is a really, really big point.

David Phelps: Take it.

Marcus Crigler: When you look at taxes and you look at what you need to do in order to ensure that you're in a position to play in the playbook, or at least are running those plays, there's three different people or three different advisers that you need to know about and what the difference is between each one of those. So the first one is going to be a tax preparer. This is probably what 99% of Americans look at as their tax guide, their CPA, whatever that might be. That's the tax preparer. Well, let me tell you the role of this guy. It's a very, very purporting role. Their job is to take the information gleaned from you and to report that in a concise way to the IRS, that's correct. Right? That's their job. A tax preparer, that's what they do. And so when you're paying a tax preparer, just understand that they're doing their job and I've seen so many people get frustrated. "Well, my tax preparer didn't tell me to do this, this and this."

David Phelps: Right.

Marcus Crigler: No, that's because that's not their job. Their job is to take the information from you, put it in the documents, know where it needs to go in the documents and then produce that to the IRS and hopefully make sure that you're not going to get arrested by doing so. And of course, you're not going to. But that's their job.

The next person's the tax planner, right? The tax planner is often misused as well. The tax planner is somebody that's going to tell you how much tax you owe or how much tax you're going to get back at the end of the year. It's basically preparing you for what's coming down the pipe. It's like having somebody tell you what next April is going to be in collections for your businesses. Nice information to have, right? If you can estimate it and you've got six months to know that I'm going to have to pay a $50,000 tax bill, that's a whole lot better than having six days in knowing that I'm going to pay a $50,000 tax bill. So that tax planner has a specific portion too.

David Phelps: Now is that in line with more of a CFO, like a chief financial officer, not that you have to have one for every business. Is that in line with what a chief financial officer would do, if that was the position?

Marcus Crigler: Absolutely. So your CFO should have a pretty good pulse on what your upcoming tax bill is going to be, right? They should know. And as an entrepreneur, you should always have a mind of where that tax bill is going to be and that's why a tax planner is very, very important. A lot of times people think tax planner is somebody that saved me a bunch of money and taxes. We're still not there yet. That person's just telling you how much you're going to get. A lot of times the tax preparer and tax planner are one in the same. A lot of times they're the same person.

David Phelps: Right. That's what I was going to ask you. Can it be one in the same? Well, let's come back to that because I think that's common. All right, let's go to the third one so we round it out.

Marcus Crigler: Yeah, the third one is what everybody wants, right? Most people that are high net income, they're looking for the tax strategist and they're misconstruing the tax preparer and tax planner for this tax strategist, that is a completely ... a lot of times it's a completely different person, especially when you're getting into sophisticated tax planning like we see these multimillionaires and billionaires use. They're using a high level very, very sophisticated tax planning or tax strategy that is helping them remove or eliminate their tax bill.

So that tax strategist is the most expensive of those three people. They're usually going to charge you as a percentage of the income taxes you've saved, right? So it's a strict value bill typically. And so if you're used to going to your tax preparer and you're spending a couple thousand bucks to have your return prepared, they're not doing any strategy with it, or very, very little. Because if they were focused on tax strategy, they'd be charging you a percentage of some of the savings that you're getting. And so that person is typically very, very expensive. They're typically going to have outside the box strategies, not mainstream strategies that we've all seen. I know your favorite tax strategy is setting up a 401k and putting your money into a 401k, right?

David Phelps: Yeah you're smirking as you say that because you know that's exactly where I don't go. But you're right. That is the typical tax prep or yeah, probably the tax prep preparation person, when someone's using an all-inclusive person to do the tax prep and the "tax planning" again, not putting those people down. But I think sometimes people get stressed to try to be all things to all people, which is a bad thing, right? So yeah, they're good tax prep. They know things about the tax code, obviously. And then someone says to them as a client, "Boy, I had to pay a lot of taxes last year. What can I do?" And the default mode is, "Yeah, you need to set up a 401k or a cash balance plan or defined benefit plan." And we won't go into that today. But yeah, that's a different story for another time, but you're exactly right.

Marcus Crigler: Absolutely. Absolutely. So that tax strategist I mean, that's the person that you're wanting to find. You want to find somebody ... if taxes is something that you're focused on and you want to reduce that or see if you can reduce that, the tax strategist is really the type of person that you want to align yourself with. And that person is not looking at, "Okay, how do I save you taxes for 2020?" They're saying, "How do I save you taxes over this year, next year, 10 years, 20 years down the line?" And they look at a tax savings as a multi-year, multi-generational plan unit. And that's why they're so expensive because it is very complex and it is a team game. That's the other thing, it's a team game. In tax strategy, you've got people out there that they are focused on one single part of the tax code, and they're the expert in it. And we all define expert as what, 10,000 hours in one area, right?

There's people out there that they just focus on this little section of the tax code and they're the best at that in the country and they know it. Those are the type of people that you want your CPA, your tax strategist to have relationships with those people, because those are the people that are actually executing, right? The tax strategist isn't necessarily always executing, but they're the connector. They're the quarterback, right? "Okay, this is a problem I see. I think can be solved by this. We need to call this tax attorney here. He can get it set up for us." And now we're now we're rocking and rolling. That's the role of your tax strategist.

David Phelps: So that's really what you do Marcus, is your tax strategist and you are that quarterback. You bring in the other people that maybe are needed to help with the playbook as you're designing it and mapping it out for a client. For a client to really benefit from a tax strategist, as you just described, you really have to be in a business investing mode that we just talked about. We calculate this formula, but it seems to me you've got to be in some expansion mode, development mode. You're building something. You're not maybe sitting status quo. Not to say that that's bad, but most of my clients, not all but most of them they get a good business, a good practice. This is optimized. But if they're not adding more to it or expanding or adding adjunct or ancillary income streams or assets, how much value would a strategist be there?

Marcus Crigler: Yeah, that's a great question. So it all depends on your income level too. So if you're building, there's more opportunity in tax strategy. If you are high net income, there's more opportunity. It's just like anything, right? When you're paying your tax strategist based off of percentage of tax savings, well, if they can save you $10,000, they're not going to get paid very much. But if they can save you a million dollars in taxes, now they're interested, right? And so that's why tax strategists, when people say there's some inequity between higher income and lower income people, it's because the best and brilliant minds are working with the higher income people, because their fees are higher. I mean, it's true capitalism. And that's why there's such a big ... that's why we talk about that big disparity.

But the wealthier people, the people that make more money like it or not, can afford that. And the people that are out there doing these strategies and implementing these strategies, they want to work with the people that have the highest income because that produces the highest fees. And so it's just that correlation there. So building, having that high income. And if you're building, you're probably building because you're increasing your income.

David Phelps: Yeah.

Marcus Crigler: Right? And so those are the two big areas that allow you to do it. Allow you to take on a tax strategist. Now, what I will say is if you're making over, let's just say a $500,000 a year your number, and I would say most of your group is at least in that, if not significantly more than that. If you haven't had a tax strategy session with somebody that has looked over your entire portfolio and spent some time understanding it, it's probably worth doing. They may not be able to save you millions of dollars in taxes, but if they could save you 10%, that's a decent number for you.

And there's tax strategists out there that will do that at a lower rate. And you're not going to get the big, high end complex tax strategies maybe that a Trump or somebody making several million dollars a year would be able to look at. But there are still some tax strategies that are available for people making half a million to a million dollars a year that can really provide you a nice return on your investment with that person and eliminate or reduce your taxes in a significant way.

David Phelps: So as the quarterback, in this case as the tax strategist, you have to have relationships with tax planners and tax prep people.

Marcus Crigler: Absolutely.

David Phelps: Now there's different philosophies as there is in everything in life. And there's some people that are more conservative and some are more, I'll go to the gray area with my client. So you have a client that comes to you and you give them some tax strategy advice. And now who sells that to their tax prep person? I mean do you have to try to sell that? What if they have someone who is just adverse to doing anything that's a little bit gray line. I mean because I know this is going to come up.

Marcus Crigler: Yeah. No, so you're exactly right. What I do is if I'm going to do the tax strategy, I would prefer to do the tax prep.

David Phelps: Okay.

Marcus Crigler: For me, it's not really much more work because I know that. I've done it for a lot of years. I know the tax prep side. So I would prefer to do that. Now, I have had a situation here recently where we went through an entire tax strategy process and this is why I want to prepare myself. The client came to me from somebody else. We were in line to save them like 1.8 million in taxes on a sale of an asset. And we send it over to the tax preparer, who's been preparing their returns for 20 years and nipped it and this guy's going to write his biggest check ever to the IRS at $1.8 million.

And that was because we took a tax strategy to somebody that's used to preparing tax returns. They haven't ever seen it before. So then they go google. Well, google you can get any answer you want to on Google.

David Phelps: Sure.

Marcus Crigler: Whatever answer you want to find on Google you'll find. So quick google search, he decided that that was a bad strategy. And then that was it. This strategy, this particular strategy came from a group that I'm in that has 200 different CPAs that peer review this various strategies and create an opinion on how to do the strategy, how to execute it and how to do it in a way that is compliant with the IRS and can still provide a significant benefit to the taxpayer. So, we were very confident that this was a great strategy because we've had independent peer review individuals come in and say, "Hey, we've discussed this up one side and down the other and here's how we can do it and execute it that is a safe play for all involved."

Because as a tax strategist, it's a risky job too, right? You don't want to put a tax strategy out there and then the IRS comes back and overturns it, right? So, we try and come together as a group and mastermind, very similar.

David Phelps: Exactly.

Marcus Crigler: Like Freedom Founders and just brainstorm it. "Okay, what's wrong with this? There's, I don't like this piece of it. We need to figure out a way around that piece." Right? And now you got really, really smart people.

David Phelps: That's it.

Marcus Crigler: These people are a lot smarter than me, right? I'm in there because I know the real estate side. These guys know other pieces, right? It's that $10,000 worth of expertise.

David Phelps: Exactly.

Marcus Crigler: And so that's ultimately what happened in that situation. It didn't work out for him. Unfortunately, it's going to cost them. It's going to cost them in a big way and that happens. So I guess what I would say to anybody that has a tax strategist, that's different than their tax preparer, talk to your tax preparer first, right?

David Phelps: Yeah.

Marcus Crigler: Let them know that, "Hey, I think there's some potential out there for some tax strategy." They could get a little offended. I'll be honest with you, right? Because when you're a tax preparer, you don't just look at yourself as a tax preparer, most of the time. You look at yourself as, "Hey, I know the tax code pretty well and I can do some things that are going to save my clients some money in taxes." And that's fantastic. But you have to be able to have that conversation. And the other thing that's really, really big, bring all the parties together, right? Bring all the parties together and let's have the conversation about what you're trying to do, what you're trying to execute, where you're trying to go. Because a lot of people, if you're only seeing your tax preparer once a year, the tax strategist probably knows more about where you're going than the tax preparer does.

David Phelps: Right.

Marcus Crigler: Because a tax strategist's job is to create a tax strategy, not for today, but for a multitude of years that your tax preparer may not know what the next step is.

David Phelps: Yeah. Well said.

All right. So we'll leave it there with my discussion with Marcus Crigler. Next week, we'll pick back up again and talk about the difference between an active and a passive real estate investor. What that means for us in terms of the tax preferences, the tax benefits that are available. It's a confusing world and we'll clear up a lot of the confusion on next week's podcast.

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