<u>Discussion of How the Business Trust Works</u>
<u>With a California Dental Practice</u>

FACTS: A California Dentist is also a Real Estate Investor. $219,833 and your total monthly expenses is $160,515 (this includes staff and associate payroll and payroll taxes, but not the Business Owner's current W2 payroll).

Here are the steps for setting up the Business Trust and handling the monthly accounting and finances for the business...

Sell all assets and convey all liabilities of the S corp to you personally then in turn sell these assets and convey these liabilities to the Beneficial Trust. The Beneficial Trust then issues a Demand Note to you personally in the amount of the basis of all assets sold to the Trust.

Once that is done, and the Business Trust has been registered with your state, you are free to close the S Corp.

Next, you'll need to create a Lease Agreement between the Business Trust and the Beneficial Trust. This Lease will have the Business Trust leasing the business assets from the Beneficial Trust. *(NOTE: This converts a portion of the active business income into passive income to the Beneficial Trust so that taxes on it can be deferred.)*

Then the business operates out of the Business Trust. You use your CPA/ accounting firm for payroll of your staff and associates. You have your accounting firm pay the payroll from the Business Trust. Simply set up the Business Trust with EFTPS and the State filings.

Your average gross revenues for 2019 is $219,833 and your total monthly expenses is $160,515 (this includes staff and associate payroll and payroll taxes, but not your current W2 payroll). That leaves a net of $59,318.

Every month you would make a lease payment of 70% of the net from the Business Trust to the Beneficial Trust for all assets (including fixed assets and intellectual property) owned by the Beneficial Trust, this amounts to $41,522.60 (the net times 70%).

Leaves a balance of $17,795.40 (which is the net less the amount of the lease payment) that passes through and is paid from the Business Trust account for the Dental Practice to the Beneficial Trust account. (If you want, you can even leave the $17,795.40 in the Business Trust account. It will not affect the amount you'll be taxed on.)

You will have already paid all of the expenses out of the Business Trust account. This was the

$219,833 mentioned several paragraphs above. Your monthly staff payroll and associated taxes, not including the business owner wages, averages $65,000-$68,000/month, would have been paid out of the Business Trust as well.

This leaves a monthly average net income of $17,795.40 in the Beneficial Trust, and in turn the Trustee of the Beneficial Trust is able to use that towards paying valid trust expenses, in addition to the $41,522.60 lease payment that is passive income to the Beneficial Trust that can also be used to cover any valid Trust expenses.

And if you have $20,000 of valid trust expenses, then that leaves a balance of $39,318. This amount gets added to the corpus of the Trust. If you add the passive income from investments (total of $17,322) to the other income to the Beneficial Trust ($59,318), the total income in the Beneficial Trust would be $76,640.

The portion of the income from active business income that would be reported on a K-1 or 1099 would be;

17,795.40/76,640=22.3% x $39,318 (the net business income) = $8,785.53

So the Business Owner would receive either a K-1 or a 1099 for $8,785.53 x 12 months = $105,426.35 per year.

The balance of the income to the Beneficial Trust ($50,532.47 x 12 = $606,389.64) will be added to the corpus of the Trust and declared as an Extraordinary Dividend so that taxes on it can be deferred.

Because the $8,785.53 pass through income will be taxed to you personally, you can use this amount to pay for food, fun, and fashion. You would simply move those dollars from your Trust account to your Personal Account.

Keep in mind that as a married couple, you have a tax exemption each year of $22,400. So you won't pay any taxes on the first $22,400. The next $19,000 is taxed at just 10%. So you can take out around $41,400 and only pay around $1,900 on taxes.

If you need more than the amount that is reported as income to you personally on a 1099 or on a K-1, you can take a draw against your Demand Note and that would be tax free, except for the 1% interest.