Retained Earnings Rescue

CWPP™ Educational

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What are “Retained Earnings”

- **Retained earnings** are created when a company (C-Corp.) decides not to spend or distribute income at the end of the year.
- The company “retains” that income for future uses.
- **The Job of Retained Earnings**
  In broad terms, capital retained is used to maintain existing operations or to increase sales and profits by growing the business.

Taxes

- In order for a c-corporation to retain earnings it must pay corporate income taxes on the money retained.
- **Corporate Income Tax Rates--2005**
- **Taxable income over Not over Tax rate**
- $ 0 -$ 50,000 15%
- 50,000 - 75,000 25%
- 75,000 -100,000 34%
- 100,000 - 335,000 39%
- 335,000 -10,000,000 34%
- 10,000,000 -15,000,000 35%
- 15,000,000 - 18,333,333 38% 18,333,333 .... 35%

Classic double tax

- Retained earnings creates the classic “double tax.”
- The owner of the c-corp doesn’t end up using the money to grow the business and then must get it out of the company at some point.
- How?
  - Taking it home as income (usually in the 35-45%) personal income tax bracket.
- The corp. paid upwards of 39% corp. tax and then the owners pay upwards of 45%.
- This is very painful.

So why did we retain earnings?

- Many times a smaller c-corp is talked into retaining earnings by their CPA.
- Many times that retained earnings will never be used and the client becomes upset when they learn of the double tax.
- There are few solutions to this double tax.

Preferred/Non-Preferred LLC Solution

- If the clients could figure out a way to get the retained earnings out of the company with a cost of 15 cents on the dollar would they be interested?
- Yes.
- We will be discussing a simple LLC structure to accomplish this goal.

What is a Freeze Partnership?

- A FP is a partnership in which the there are two classes of interests:
  - Preferred interest
  - Common interest (non-preferred)
  - The preferred interest is typically limited partnership interest but could be the general partnership interest (in very rare circumstances).
- It is preferred **because it is entitled to preferred dissolution rights.**
- Basically, the preferred member will receive back at dissolution the same amount of money contributed to the FLP **BEFORE** the non-preferred member receives anything.
- Further, the preferred member typically has preferred income rights (the preferred member will be paid FIRST before the non-preferred member).
- At dissolution, the non-preferred member receives everything after the preferred member is returned the initial investment (which was frozen for the life of the FLP).

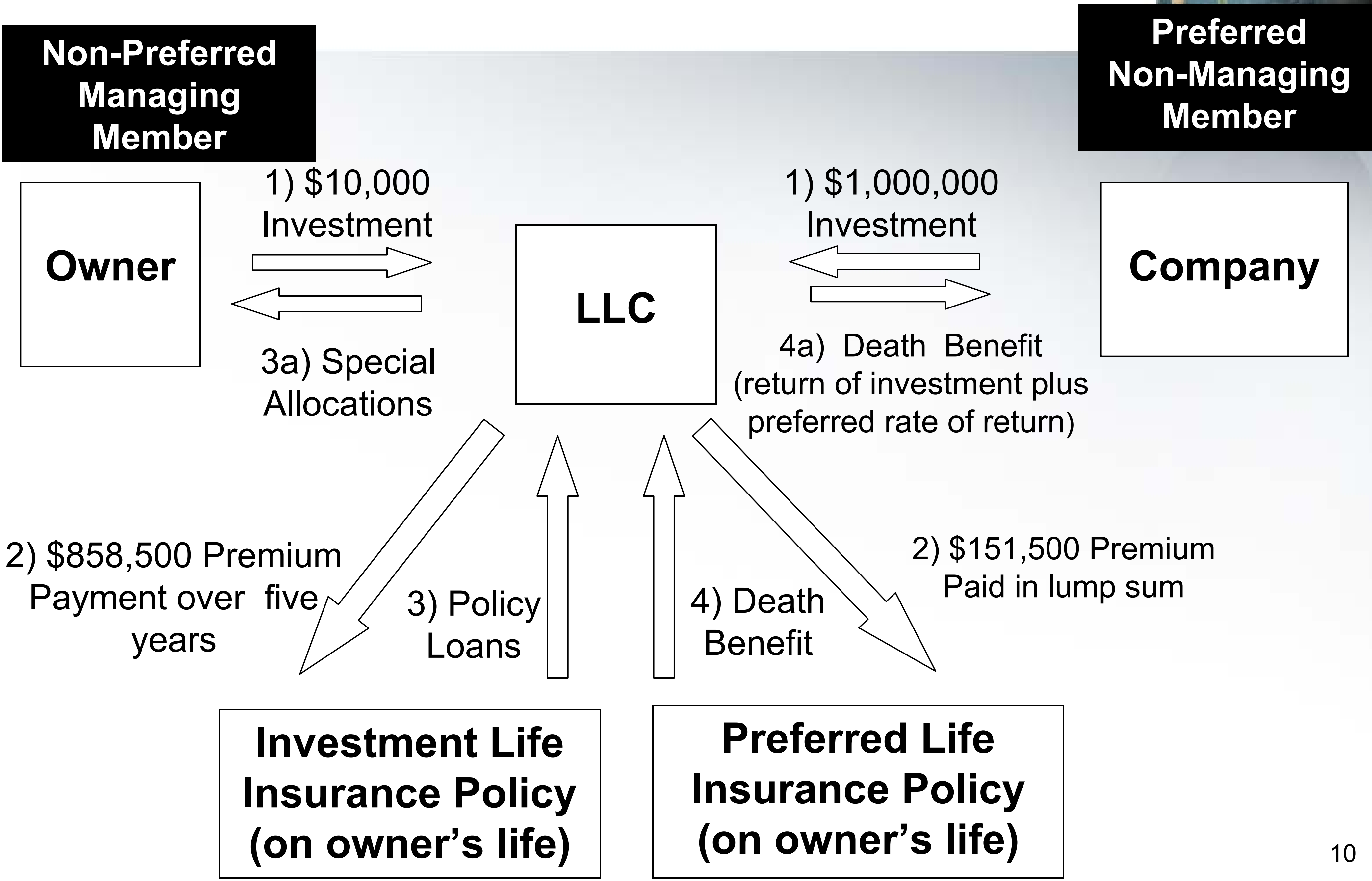
How to use a FP with retained earnings

- 1) Company invests retained earnings in the LLC (90-95% owner).
  - Company is non-managing/"preferred" member
- 2) Individual Owner invests in same LLC.
  - Owner is the managing/"non-preferred" member.
- 3) LLC buys two life policies.
  - Preferred policy to pay back the LLC
  - Investment policy to build wealth.

Continued

- The insured is the employee.
- The managing member has access to the money in the cash building policy tax free.
- The corporation is paid back its investment plus a long term AFR rate of return at the owner’s death (simple interest).
- The costs on average are 15 cents on the dollar to the preferred policy and 85 cents on the dollar to the cash building policy.

Life insurance and the FP



Retained earnings rescue makes friends

- While this topic is a bit narrow, it will make friends with:
  - Clients who have the problem.
  - CPAs who have clients with the problem.
  - Attorneys who have clients with the problem.

Legal Work

- The WPI has a few law firms that are familiar with this transaction and will work on a nationwide basis.

Overview for the Professional Designation: CWPP™ (Certified Wealth Preservation Planner)

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CWPP™

- For those that are not familiar with the CWPP™ program:
- CWPP™ stands for Certified Wealth Preservation Planner.
- 3 day certification course on “advanced” planning.
- CWPP™ is the ONLY advanced education course in the country.
- Endorsed by the National Society of Accountants and listed on the NASD web-site.

Benefits

- CWPP™ advisors can give CPE seminar to CPAs and accountants as a marketing tool under the WPI’s NASBA approval.
- Ability to give local physician seminars (The Doctor’s Wealth Preservation Guide).
- Powerpoint presentations on all the topics (client and advisor).
- Ability to become and instant author through the WPI ghost book.

What do Advisors want?

- To earn more money?
- To have more knowledge than other advisors?
- To provide better advice to clients on multiple topics?
- To be more credible than other advisors?
- A team of advisors for support and back office when dealing with "advanced" planning.
- Are these of interest to you?
  - If so you are a candidate to become an APP™ or CWPP™

Topics

- What topics are covered in the CWPP™ course?
- **Asset protection (3 hours)**

  -Domestic

  -Offshore
- **Deferred Compensation (4 hours)**

  -WealthBuilder® Annuity; Traditional NQDC and the Leveraged Bonus Plan®

  -Qualified plans/412(i) plans

  -ESOPs

  -IRAs
- **Business Planning (6 hours)**

  -Account Receivables (A/R) Leveraging

  -VEBAs and 419A(f)(6) Plans

  -Section 79 Plans

  -Closely Held Insurance Companies

  -Corporate Structure

Continued

- **Estate Planning (8 hours)**

  -Basic

  -“Advanced”

  - Life Insurance

  -Premium Financed Life Insurance

  - Medicaid Planning

  -Qualified Pension Insurance Partnership®
  (Mitigating the 75% Tax Trap)

  -Charitable planning

  -Long Term Care Insurance

  -Private Annuity Trust
- **Personal Finance (4 hours)**

  -Annuities

  -Life Settlements

  -Reverse Mortgages

  -Disability Insurance

For more information

- Go to www.thewpi.org
- Or e-mail info@thewpi.org
- 269-469-0537
- The next seminars are:
- **Dallas, TX February 23-25, 2006**
- **San Diego, CA March 14-16, 2006**
- **Las Vegas on June 5-7, 2006**
- The course can also be taken completely online.

Questions?

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