EPISODE 489

[INTRODUCTION]

[00:00:00] ANNOUNCER: Welcome to The Real Estate Syndication Show. Whether you are a seasoned investor or building a new real estate business, this is the show for you. Whitney Sewell talks to top experts in the business. Our goal is to help you master real estate syndication.

And now your host, Whitney Sewell.

[INTERVIEW]

[0:00:24.1] WS: This is your daily Real Estate Syndication show. I'm your host Whitney Sewell. Today, our guest is Amanda Han. Thanks for being on the show, Amanda.

[0:00:33.2] AH: Thank you so much for having me here Whitney.

[0:00:35.0] WS: Amanda is the author of the bestselling book, *Tax Strategies for the Savvy Real Estate Investor.* And a new book called *Advanced Strategies* releasing February the 20th 2020. She's also a CPA specializing in tax saving strategies for real estate investors and real estate professionals in various asset classes across multiple states.

A Frequent speaker and educator on real estate related topics for entity structuring and self-directed investing. Amanda, thank you again for your time. Your specialty is so needed by myself and everyone else I know listening to this show. We're grateful to have you on. Tell the listeners a little more about who you are and maybe where you're located and let's jump in?

[0:01:15.6] AH: Yeah, sure. In addition to just being the kind of boring CPA, I'm also an investor myself as well. So, my husband and I, we started investing in real estate several years ago. In fact, I'm a third generation of real estate investors in my family. My grandparents invest in real estate, my parents invested in real estate and we happened to get into real estate because we were – my husband and I, we're working for one of the big four accounting firms in the real estate group and you know, doing taxes for rich people and came to the realization that these people pay no taxes even though they make so much money.

Kind of how we got started and been fortunate to kind of combine our passion for tax strategies but also be able to – what I learned from my clients on what they're doing in real estate, how they're making money and try to implement that for ourselves as well.

[0:02:00.1] WS: That's so interesting. That was somewhat of a realization I had and it's like 2009. I'd never been exposed to real estate before. And then it hit me, I was reading *Rich Dad Poor Dad*, amongst other books and it was like, "Wow, you know, wait a minute. How did I not know about this, you know?"

It's incredible that you get to see how so many people have built wealth and you get to use those same strategies and help strategize as well with your expertise.

But one thing we were going to talk about, you and I briefly discussed it before the show and I get this question all the time about how I should be structured? How this hurts or helps my taxes or does it and you know, as far as being an operator in deals and I'd love to talk about as far as the passive investor as well.

But maybe as an operator, you know, you could help us think through like, do we need 12 different entities and you know, is this something that's good for our taxes or something you recommend and things like that? Get us started and I'm sure I'll have some questions.

[0:02:52.0] AH: Sure, that's a great question I think, you know. The answer often is it depends, right? With anything in taxes, unfortunately. But as a general guideline, if you are an operator or you know, a syndicator yourself, typically, what we recommend are two different structures. One is going to be the syndication which is where all the investors are.

So, you have all of your limited partners and you might be one of the limited partners too, right? If you're putting money in. that entity will flow up you know, cash flow, appreciation and all the passive income that we really like. In addition to write-offs and depreciation. But, for most syndicators, we also are an active income. You know, that's generally defined as acquisition fee income, asset management fee, disposition fee. All those things that you know, working as a syndicator.

Typically, we recommend that entity, often, referred to as the GP entity. We generally recommend that to be another kind of entity. Depending on how much money you're making, that often times is going to be some kind of a corporation like an S Corp and the reason for that is to help you minimize self-employment tax. As an example, if you're a syndicator and this year you got acquisition fee of $100,000 let's say. If you earn that in an S Corporation, it could help you to save up to six, $7,000 worth of taxes in just that one year.

It definitely could make sense but I think going back to your question, how many entities, you know, every CPA has a different school of thought on that. I think for me, at least from the tax perspective, the fewer the entities, the better it is. Because there's no need for you to pay an attorney, a CPA to do a tax return unless it's absolutely necessary. At least that's my opinion at least.

If you're a sponsor and you're syndicating a couple of different deals. Maybe you have that same GP entity and that could be used for multiple syndications that you're involved in or if you have an LLC that holds your own rental property as well as syndicated deals, that LLC could be holding, you know, multiple syndication investments as well. So, of course, everyone's situation is going to be unique but generally speaking, that's how I typically like to see the structure.

[0:04:52.8] WS: Okay. Now, let's talk about the specific operator. His personal ownership in that property, right? Yes, he may be investing passively as well but let's say you know, you're the operator, you have equity in this property, how should I hold that equity? I've been told, you know, I should have this holding company over here, I should have a separate entity that's just say, my wife and I, you know, that has our – say our active investment holdings and then maybe a separate one for passive holdings, I just would love your opinion.

[0:05:23.7] AH: Yeah, definitely. I think you know, big picture, we generally want active and passive in two different entities. Yes, you might have fun investing in your syndication. I could either just invest as Amanda Han or I can invest as Amanda Han LLC. Purely from a tax perspective, it makes no difference either way. I'm still going to get the write off, if it's a multifamily and it has depreciation, I'm still going to get the depreciation, whether I hold it individually or if I hold it in another LLC.

In other words, the only reason to hold it inside your own LLC would be for asset protection purposes. And then that unfortunately is not something that I should comment on because I'm not an attorney. If you get sued, you wouldn't call me. But you know, I think some attorneys recommend having a different LLC, other attorneys will say, "You know, as a passive investor in the syndication, your risk of being sued is fairly small."

Maybe you don't need to have the cost to form yet another entity. From a structuring perspective, yeah, if I'm investing passively. I think for me, I can do it individually or I can have my own LLC do it. But if I'm the investing in three different syndications, I probably wouldn't have three LLC's, I probably just have one LLC and just call it Amanda Han LLC and that LLC will be the owner of all my equity investment in the three syndication.

It helps to kind of you know, keep things simple, if you will.

[0:06:39.5] WS: Yes.

[0:06:39.0] AH: But on the active side, yeah, you definitely, it's not going to be Amanda Han LLC where my rentals are, it's going to be something completely different. It's not going to own any real estate. It's just going to be kind of my cash machine where I get all of my fees and acquisition income and all that good stuff.

[0:06:53.7] WS: Okay, so, the operator would have an entity that's really his personal entity that owns his ownership in that property and that's where, it's acquisition fee and those things like you were talking about any kind of fees are going to flow into.

[0:07:05.7] AH: There'll be one entity where – as the syndicator in my example, I wear two hats, right? I am an investor, I'm a limited partner investor. I am also a general partner where I'm actively involved. My ownership in those two will be in different entities.

[0:07:19.3] WS: Right, you know. In the deal structure itself, yeah, there may be numerous entities but I just mean like, for the personal operators portfolio himself, the part of those entities that he owns, I just wondered if that should be owned by an entity that he has, that's just his?

[0:07:35.9] AH: I mean, you could but it would be two different entities so when you often hear attorneys talk about like a holding company. Holding company could make sense of you know, the parent is the holding company and underneath that, I have a bunch of different real estate, you know, rental property number one, apartment number two, syndication number three, that can all roll to the holding company.

But my acquisition fee is not going to go into any of those LLC's or that holding company. I would just have another entity called Amanda the manager LLC and that's where all my active income goes to, so yeah. That will just be completely unrelated to where my real estate is. It's just a quirky thing, you know? For active income, we want that to be in an S corporation usually versus for rental income, we generally don't want that to be an S corp.

That's why their – I typically like to say it's left hand and right hand. My left hand is all my rental income and cash flow, my right hand is all the active income that I'm working towards.

[0:08:31.2] WS: Okay, that's good to know. Active income in an S corp but any passive income just in an LLC. Okay, what about different LLC's as we find that active investor and you know, we're doing numerous deals and so I have my entity, you know, whatever I want to call it, WS real estate, whatever, active. Okay?

We do a deal here. Okay, now, that deals acquisition fee and any kind of fees are flowing through WS Real Estate, whatever. And then you know, active. And then we do another deal over here. Would you suggest having a different entity for this new large property or that it's the same one's fine.

[0:09:08.8] AH: Not unless you need to so yeah, if it's just here, the only person actively involved, then yeah, it would just be with a one and the same LLC. You will have your – let's say we'll call it Whitney Acquisitions LLC where that's your active income. That could be the GP in multiple deals, right?

It could get paid syndication fees from multiple sources of revenue. We like that because for tax purposes, it's all the same income. Whether you got acquisition fee for main street property or free month street, it's all just acquisition fee and when we start having these multiple S corps, more tax returns, more legal fees, more payroll, more retirement account you got to set up, more bank accounts. And so, the really the goal is try to get the most tax saving but with the fewest number of entities whenever possible.

There are times when you know, the operators have to have different entities for different deals. I typically see that occur when you're partnering with different people, right? It's Whitney John and James here but it's Whitney Beth and Mary and the other one.

In those instances, okay, maybe we're talking about two different GP's because there's different people involved on the active side.

[0:10:09.7] WS: What about series entities versus just you know, a lot of people say, well, I want a different entity for every deal. When I say every deal, I mean like hundred plus unit deals. Personally, I they're going to have a different entity for every deal and I understand on the structure of the syndication, we're going to have different entities obviously for every deal but I just mean me, personally, to hold my active ownership. Would you recommend a different entity or I know we just said probably not but what about using a series or not?

[0:10:38.5] AH: On the rental income side, right? The passive rental income that we're getting, whether you hold it individually or through an LLC or a series of LLC's, the tax treatment is exactly the same. Same write-offs, same depreciation, there's no difference at all and so the only reason to have multiple entities like in a series for example is to have better asset protection.

Some attorneys really like series LLC's, other attorneys don't really like it. I think it also depends, another point of consideration is where are the properties located and where are you located? I'm in California. For example, California has a crazy rule that says, every single LLC that's ultimately owned by you as a resident has to pay $800 fees every year to the state, even though you might have a loss on your tax return.

You can imagine if I have five babies plus a parent, that's six times $800 every single year. They have similar rules for New York, not as high of a fee so you know. Versus places like Texas or Tennessee, there is no income tax and you know, not a lot of fees. But maybe it's a good idea to do one of those series structures.

That's why it's important to make sure when you're talking about entity setup, you're talking to your CPA, you're talking to your attorney and you really understand what's the cost. Because I think people hear it initially and say, "Wow, I love that series, everything's separated, it's so safe." But if you get a four, $5,000 bill every year, okay, does that makes sense for me, right?

[0:12:04.3] WS: Now, for the passive investor, I know you mentioned this a little bit about that, we reiterated that isn't needed for them to have an entity that they're investing through. We have many investors that investors entities and many just see their personal name.

[0:12:16.4] AH: Yeah. I mean, from a tax perspective again, it's not required. Let's say that you invest in a syndication, you know, before you invested, you went to visit the property so you had some flight cost, hotel cost, maybe a really nice you took this syndicator out to dinner to find out more about this investment.

The common question we get is can I deduct those if I don't have an entity and the answer is yes. You don't need a legal entity to deduct those expenses against from passive income. For the most part, if you're just passively investing syndications, at least from the tax perspective, there's not a need to have an LLC for that.

Of course, you know the other side of the coin is, it doesn't hurt, right? If your attorney's like, "Well, I don't know. It might not be a bad idea for you to just have one just to get more asset protection." That's okay too, right? And then, from that perspective it's just, "Okay what's the cost?" legal, tax, accounting, state fee and does that makes sense for the additional protection I am getting, right? And I think the answer will be different from investor to investor.

[0:13:14.3] WS: Sure. What about you mentioned you know about different states and different fees and things like that? You know a lot of people are doing like Wyoming entities or LLC's and

Delaware and things like that. And then yeah, I think they can do series entities there, you know and somewhat kind of be under the radar I think for a while you couldn't find the owners name. I've heard that maybe that's changed now but what about what state it's in?

If I have an entity in Wyoming but I live in Virginia and we are buying property in the West somewhere, does that matter as far as our taxes are concerned?

[0:13:44.4] AH: Yeah, good question. So, tax wise and this is a common misconception people feel like okay, maybe I live in California. I am investing in Tennessee and New York and Florida that means I got to have three LLC's that is not the case at all.

So if your attorney says, "I really like Wyoming for asset protection purposes," what they'll do is they will form a Wyoming entity. That entity then will register in your home state. So, if I live in California it will be a Wyoming entity registering in California.

If I happen to buy a Texas property, I will likely register in Texas this year, file a franchise report, which you know generally you don't owe any taxes and then next year or you know later on I invest in Arizona or New Mexico then I will register that same LLC to do business in these other states.

So, not really a problem from a tax perspective if you have one entity operating in multiple states. The down side of course is when you get into multiple states, they are likely going to be state tax returns that the state wants you to file, right?

So, you know I just tell people in the stock market people talk about diversity, right? "I want to diversify into large cap and small cap." In real estate maybe we don't want to diversify into 10 different states or 20 different states when you are just starting out because you can imagine, you know you have one single family here, one single family there and before you know it, you have a 200 page tax return. That is what you are trying to avoid.

[0:15:01.8] WS: Yes, and this maybe a similar question but slightly different, you know what about that passive investor? And I have received this question and I just want to make sure I am saying it correctly, you know they say, “Well, I live in Maine but I am investing in your property in Utah, what taxes am I paying?”

[0:15:21.8] AH: So generally speaking, you’ll pay tax if there is profit on that real estate. You will pay taxes in Maine and then you will pay taxes in Utah, assuming there is profit. Often times the states will give you a credit. So, meaning okay, Maine knows you paid taxes in Utah they might give you a credit so you are not doubled taxed. But that arrangement is state specific well between one state and another state, although more and more states are doing that.

The reality of it is though I think most of investors know is that the goal with investments in real estate is we want cash flow and appreciation but we won’t have taxable income because we’ll have depreciation. We’ll have a lot of write offs. So you know in your example, someone living in Maine investing in Utah, sure you might have to fall on Utah but likely it is going to be a loss anyway, which means you’re just filing return. You’re not really paying taxes in Utah because that syndication is going to have a lot of depreciation that you can take a deduction for.

[0:16:16.4] WS: Will our common CPA knows that that we also need to file taxes in another state like that?

[0:16:23.6] AH: Oh, that’s a tough question. I don’t know, I can’t comment for a common CPA because –

[0:16:28.1] WS: Well I just mean like their specialty, say the CPA specialized it seems and say the W2 employee versus somebody that’s in real estate. Or I mean no offense at all to any CPA but there is different specialties, right?

So, I just wonder, you know I was thinking about the passive investor who has the CPA, he’s had let’s say a W2 high income earner for a long time. The CPA has been amazing but all of a sudden, he’s investing in a property many states away. I just wonder if there is anything that might come up that you know they may not catch or know of.

[0:16:57.9] AH: And we do see that frequently, you know when I review someone’s return and I’ll ask, “How come you didn’t file in Ohio” or Ohio City you know? Like we have all of these properties that not just a state return but a city return or the district returns that they want. So sure, I think that if you just go to what we consider a turn and burn shop that just does W2's day in and day out, yeah, odds are they are just filing in your home state because they don't know that there is a need to file in the other states or that there is a benefit to filing.

And you know because we said, "Okay, well if there is a loss, why do we file?" Well because we want to capture the loss so we can use it in the future. So yeah, it's highly possible that is something they don't know. I think when you are talking to your CPA, especially if you are new to investing in real estate, you want to find out from your tax person how well-versed they are in real estate. You know have they dealt with K1's from syndications?

You know, do they understand depreciation? How many real estate investor clients do they have? Because you don't want to be the only or the one of the few clients that they are doing. You just never want to be someone's test case. So yeah, I would definitely ask that question if there is a significant change going strictly from W2 to now investing in real estate.

[0:18:04.9] WS: Great, all right Amanda with just a few more questions before we run out of time. You know what's been the hardest part of the real estate investing journey for you?

[0:18:12.5] AH: The hardest part? Gosh, you know I think for me, finding the right deals. I started real estate back when the market was really depressed. So, I think like a lot of our clients, it's like found really great deals and not being able to replicate something in that level. But I think it is different. It is just always trying to find the deals that worked for you, something that was difficult when I first started out was learning how to look at a deal for the deal itself and not falling in love with the project or the ideal or the property, right?

Like, "Oh I love this property because of the walk-in bathroom and maybe I will retire here or I love that syndicator because he is so nice and he's just starting out. But oops, he lost all of my money because he is just starting out."

So, things like that just really analyzing things for what they are. I think over the years that's hard lesson learned for me is looking the deal for the deal and doing due diligence on the syndicator even more so than the property if you are looking at a passive investment.

[0:19:15.4] WS: For sure, great advice. How do you prepare for this potential downturn that everyone is talking about?

[0:19:20.9] AH: Oh gosh! Well, we sold a lot of our California properties already. You know just for anyone who is in California have already seen a lot of the changes in the state and things like that. But I think education, you know learning more about different products and I am a big fan of analyzing the economics of things. So, I like learning about what the Millennials are doing, what the Boomers are doing. I think it helps to guide me in terms of what kind of product will be easier for cash flow, for appreciation and things like that. So yeah, I think just continuous learning so that you are prepared when the time comes you can jump on all the deals.

[0:20:00.6] WS: Nice, what's a way that you have recently improved your business that we could apply to ours?

[0:20:05.2] AH: I recently improved to my CPA business or to my real estate business?

[0:20:09.8] WS: Either one.

[0:20:10.3] AH: Oh gosh, you know my CPA business, we're always trying to improve on things and I think it is the same for our real estate. I am a strong believer of focusing on what you doing well and cutting out the things that you're just mediocre at or maybe not the world class act. So, in our CPA business, we used to do bookkeeping, payroll, tax returns and all of that and now we are heavily focused on tax planning because that is what we are good at.

That is what we know how to do and then the bookkeeping, the daily journal entry kind of things, we just kind of refer out because you know, there is not much of value we are adding so that everyone here can focus on where we bring the most value. I think that same concept applies to our real estate too is just understanding because my husband and I are both still working in the practice. So, we are not out there negotiating deals or doing flips in the middle of the night.

And so just really knowing what we are good at, what our limitations are and then building a real estate portfolio around those things.

[0:21:07.3] WS: And so, I like asking operators when they are on the show, how they stand out in their relationship with their investors, what makes them different or stand out? And so, on your side as a passive investor, is there anything that's really made an operator stand out to you that says, "Okay, you know I really like this operator."

[0:21:26.1] AH: Well you know, because we do taxes, I see the number side of things and for me it is very important. I feel like the way I handle the finances, how organized they are, how good they are in their projections that tells me a lot about their ability to deliver on what the promises are. But I think for most passive investors, they might not get that kind of insight into what it is. So, I think if I didn't have that insight I would say, you know look at their experience.

Look at what deals they have done in the past, talk to other people who have invested with them and something really easy, you know just search their name and fraud and as you see and complaints, right? Because that is what we are looking for and if we don't find anything, great but if we do, those are big red flag items. We are trying to syndicate a deal that they didn't make a whole lot of money on their end but that was because they changed things around to make sure the investors were taken care of.

So yeah, I think those kinds of things stand on my mind is that they have their eye on the longer-term goals. I make my investors happy so they will come back again and again, rather than paying myself first and then maybe they'll never come back again.

[0:22:33.6] WS: Right, for sure. What is the number one thing that's contributed to your success?

[0:22:37.5] AH: The number one thing, oh my gosh, I don't know. I think taking action. I am a big believer of taking action whether it's getting into your first deal or doing your first syndication. I know it is scary for a lot of people and myself included. But yeah, taking action. You know when we set out to write a tax book a couple of years ago it is something I wanted to do for a long time and then one day I was on a cruise and I just said, "You know I had no internet here." I have nothing to do so start. So, I think taking that first step is key to any kind of success.

[0:23:06.4] WS: Well, besides being on the show today and maybe your book, how do you like to give back?

[0:23:11.1] AH: So, my husband and I have, we formed a non-profit organization a couple of years ago. It's called Animals for Armed Forces and what we do is we raise money, which the money will go towards paying for adoption fee. So, if you're someone who is a member of the armed forces current or retired and you want to adopt a shelter animal, our organization helps to pay for the adoption fee and vaccination and things like that.

So, we're big animal lovers and you know it's just something we wanted to do to come entice other people to adopt and take a pet home.

[0:23:42.4] WS: Wow. Well, thank you for giving back in that way Amanda, you and your husband. Thank you for your time today. I know I have enjoyed the show. I have learned a lot from you just today, I know the listeners have as well but tell them how they can get in touch with you and also find your book.

[0:23:54.5] AH: Yeah, so the best way to get in touch is our website. There is a lot of great free information. That is www.keystonecpa.com and yes, so we wrote a book on *Tax Strategies for the Savvy Real Estate Investor*, which could be found on Amazon, Barnes & Nobles, BiggerPockets and our new book, *The Advance Tax Strategies*, comes out February 20th and don't let the name scare you.

It says advanced strategies but it is all lots of stories around real estate tax strategies. What went well, what went bad and if we have anyone who is a fulltime W2 worker who wants to know how to use real estate to reduce taxes or for wealth planning in general, we have a whole chapter specifically about people who are just investing passively on the side. So, check us out.

[0:24:41.0] WS: Awesome Amanda, that's a wrap. Thank you very much.

[0:24:43.7] AH: Bye, thank you. Thank you.

[END OF INTERVIEW]

[0:24:46.2] WS: Don't go yet, thank you for listening to today's episode. I would love it if you would go to iTunes right now and leave a rating and written review. I want to hear your feedback. It makes a big difference in getting the podcast out there. You can also go to the Real Estate Syndication Show on Facebook so you can connect with me and we can also receive feedback and your questions there that you want me to answer on the show.

Subscribe too so you can get the latest episodes. Lastly, I want to keep you updated so head over to lifebridgecapital.com and sign up for the newsletter. If you are interested in partnering with me, sign up on the contact us page so you can talk to me directly. Have a blessed day and I will talk to you tomorrow.

[OUTRO]

[0:25:26.6] ANNOUNCER: Thank you for listening to The Real Estate Syndication Show, brought to you by Life Bridge Capital. Life Bridge Capital works with investors nationwide to invest in real estate while also donating 50% of its profits to assist parents who are committing to adoption. Life Bridge Capital, making a difference one investor and one child at a time. Connect online at www.LifeBridgeCapital.com for free material and videos to further your success.

[END]