Introduction

When I was a boy, I loved to argue. It didn't matter whether it was on the tennis court or playing Monopoly®. It wasn't simply that I felt I was right; it was the joy of the debate. I discovered that the more I learned about a subject, the more likely I was to win an argument. And what's the point of arguing if you don't plan on winning, right?

I also found that the more vague the question, the easier it was to argue. I grew to love studying about anything that didn't have a fixed answer. When I turned 19, I went to Paris, France, on my mission for the Mormon Church. Everybody knows how the French love to argue. And they have the right language for it. Arguing in French is one of the most enjoyable things I've ever done. It's such a beautiful language. And the French love a good argument. Unlike Americans, they don't take it personally. So you can argue with them for hours on end without anybody getting their feelings hurt. I'm convinced that the French invented the seven-course meal so that they would have plenty of time to argue without their food getting cold. (I remember more than one meal lasting over four hours.)

Maybe it was my love of a good argument that drew me to law in the first place. Although I never earned my law degree (I didn't want to hang out with lawyers—ugh), I loved the thought of practicing law.

I also enjoyed learning about money, earning money, and spending money. So when I went to college I took accounting courses and specialized in tax accounting. Being a tax accountant, I could work in the law and with money at the same time.

During my first 13 years out of college, I worked as an employee for some Big Four accounting firms and a Fortune 1000 company. I was very

successful as an employee. Promotions came easily and steadily. In my first firm, Ernst & Young, they gave me the opportunity to work in the National Tax Department–a great honor for a young CPA. I did equally well at the Fortune 1000 company, making great strides in reducing their sales and property taxes. When I left them, I went back into public accounting with a different international accounting firm. One day, only seven months after I started working there, I went into my office, only to find a note on my desk from my boss that I was to come down the hall to see him as soon as I got in.

This was a little odd, as I worked in the Phoenix office and my boss worked out of the Los Angeles office and my boss had not told me previously he was coming to town. I immediately went down to the office he was in and he invited me to come in. The first thing he said to me was to please close the door. Something was up. I couldn't tell right then whether it was good or bad. Then he told me to please sit down. That couldn't be good. He proceeded to tell me that he had decided to let me go. "So you are firing me?" I asked? He nodded.

This was quite the shock for someone who had always excelled in school and work. I headed home. As I walked in the door, my wife, Rosie, said, "It's a little early for you to be home, isn't it? What's going on?" I told her what had happened. She had a few choice words for my then former boss (Rosie never pulls a punch). Then we started planning our future. Rosie suggested that I had always wanted to start my own business and perhaps this was the opportunity to do so. Quite a leap of faith when you consider that we were a single-income household with two young boys and that I was the sole provider.

I started with two clients. For the next nine months, I worked tirelessly to build my business, speaking to everyone I knew and even making cold calls. I was so successful that after nine months I doubled my business. That's right—I went from two to four clients. That wasn't going to pay the bills. Then one day a friend of mine, also a CPA, called me to tell me that there was an accounting firm for sale located not far from me. It turned out that I knew the CPA who was selling the firm.

The only challenge was that not only did I have no money, I was $40,000 in debt. I asked my friend for advice and he offered to lend me some of the money. The seller agreed to finance about 50% of the sales price and my parents loaned me the rest of the money. My first no-money down deal. Within a year, I was so busy I had to add a partner.

About five years later, I met Robert Kiyosaki and began studying money and business under his tutelage. I learned a completely different way to look at money and business—and education. I'd never seen teaching like Robert's before I met him and started attending his conferences.

Here I am now, writing a book in the Rich Dad Advisor series. Without Robert, I would never have written this book. In fact, I couldn't have written this book. Much of the big-picture thought process about taxes and wealth contained in this book comes from my many meetings and seminars with him.

When Robert first approached me about writing this book, he told me that it had to be about how entrepreneurs and investors could reduce their taxes. And it had to be international in scope. I did some checking in the bookstores and libraries and I couldn't find a single book on taxes with an international perspective. This presented a great challenge to me.

How could I write a book on taxes that applied to every entrepreneur and investor in every country? I know the U.S. tax law very well. I've been studying it for 30 years. But like everyone else, I thought that the tax laws of other countries would be quite different than the U.S. laws.

My research revealed something entirely different. It turns out that the tax laws in all developed countries are similar. They are so similar, in fact, that a book could be written that applies to entrepreneurs and investors around the world. This is that book.

To be sure, the details of the tax laws are different in each country. And we will look at specific tax strategies you can use in your country at the end of each chapter. But unless you are a tax professional, you, the entrepreneur and/or investor, don't need to know all of the details. You can leave those to your tax advisor. You have to know the concepts. And the concepts are the same regardless of your country of origin or the country in which you do business.

This book is about tax planning concepts. It's about how to use your country's tax laws to your benefit. In this book, I tell you how the tax laws work. And how they are designed to reduce your taxes, not to increase your taxes. Once you understand this basic principle, you no longer have to be afraid of the tax laws. They are there to help you and your business, not to hinder you.

Once you understand the basic principles of tax reduction, you can begin immediately reducing your taxes. Eventually, you may even be able to legally eliminate your income taxes and drastically reduce your other taxes. Once you do that, you can live a life of tax-free wealth.

So let's get started.

Part One

How the Tax Law Can Be Your Best Friend

Chapter One

Taxes are Stealing Your Money, Your Time, and Your Future

"Taxes are your largest single expense." – *Robert Kiyosaki*

Every day, taxes are stealing your life away. Income tax, sales tax, value-added tax, employment tax, and a host of other taxes are eating away at your life.

You may think they are just taking your money. If only this was all they were taking. Taxes don't just take your money—they steal your time—because money is time. People with lots of money have lots of time because they don't have to spend their life trading their time for money. Instead, they can trade their money for time.

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The average person in a developed country spends 25 to 35 percent of their *life* working to pay taxes. That means more than two hours of every workday are dedicated to feeding your government. And three to four months out of every year are spent working solely so that you can pay your taxes. That adds up to over 13 years in your work life and 20 years in your lifetime—20 years. That's a prison sentence.

And it's not going to get better anytime soon. As inflation eats away at the spending power of our currency, it also puts us into higher tax brackets. So we end up with even less purchasing power because a higher

percentage of our income is taxed. And with the increase in the number of entitlement programs in every country, there is a higher demand for tax revenues to support them. The United States alone has over $80 trillion of unfunded social liabilities in the form of Medicare and Social Security promises to its aging population. And this number grows every day as new entitlement programs are enacted.

It hasn't always been this way. In the early years of the income tax, only the very rich were subject to the tax. It was believed that since the rich had more income than they needed in order to live comfortably, they could afford to pay some of this back to the government. And because they had earned this income under the protection of their government, certainly it was fair that, in time of war, they could pay back the government some of their excess in order to maintain their freedoms and the protection afforded by the government.

This all changed after World War II. The governments of the world found that the income tax was a useful revenue-raising tool that could be used to rebuild an economy that was ravished by war. So the governments began taxing the middle class. At first, it was only the excess earned by employees over the average cost of living that was taxed. The government provided exemptions for the first income earned so that the average person could live on their regular earnings and only pay tax on the excess that would otherwise go to investments.

As they watched the behavior of the people who were now paying income tax, the government began to tinker with the tax law to see how it would affect the activities of the taxpayers. What they found was that a minor change to the tax law could have a profound effect on the behavior of the people. If the government gave a tax incentive to invest in business, more people would invest in business. If they gave a tax benefit to those who invested in oil and gas, more people would invest in oil and gas.

And so the tax law grew from a simple revenue-raising vehicle to a vast array of laws that governed the economic activity of the land. And so it is today that the tax laws of every country are modified as the economy changes and as social policies change.

You may think that you have no choice about how much tax you pay. Everyone has to pay taxes, right? Wrong. There are millions of people who legally pay little or no tax. What's their secret? Do they know about loopholes that are in the law that allow them to get away with not paying tax? No. They simply understand how the tax law works. They understand that the tax law is not something the government uses only to raise taxes. The tax law is a tool the government uses to shape the economy and promote social, agricultural, and energy policy.

These people understand that the tax law in every developed country is now a series of stimulus packages for entrepreneurs and investors. In the United States, over 95 percent of the tax code is intended not to raise taxes but rather to stimulate economic, agricultural and energy activities. In fact, the tax law is a map (or a code) to vast amounts of wealth. And the tax code doesn't only show you how to reduce your taxes. If you follow the tax law carefully, you will discover that the secrets to amassing huge amounts of cash flow and wealth are found within its pages.

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The reason is quite simple. The government wants the economy to grow. It wants you to invest in local energy production. It wants you to invest in local agriculture. And it wants you to invest in economic activities that provide housing and jobs for the people. All of this is contained within the tax law. When you understand the tax law of your country, you will understand what the government wants you to do with your money. And you will understand the fundamental principles for making large amounts of money.

TAX TIP:	Include tax planning in your wealth strategy. Remember that it's not just what you make that matters, it's what you keep. When you keep taxes in mind as you invest, you end up keeping more money and make better investment decisions.

Was the tax law written for the wealthy? Absolutely! The key to taking advantage of the tax law is to become one of the wealthy. Do those activities that the government wants you to do, and you will not only permanently reduce your taxes by 10 to 40 percent or more, you will also begin building more wealth and cash flow than you had ever imagined possible. Just look at how much faster a $10,000 investment grows without taxes.

Year	Pay Tax	No Tax
Year	**With 40% Tax @ 10% Return**	**Without Tax @ 10% Return**
1	10,616.77	11,047.13
2	11,271.59	12,203.90
3	11,966.80	13,481.81
4	12,704.89	14,893.54
5	13,488.50	16,453.08
6	14,320.44	18,175.94
7	15,203.69	20,079.20
8	16,141.42	22,181.75
9	17,136.99	24,504.47
10	18,193.96	27,070.41
11	19,316.13	29,905.04
12	20,507.50	33,036.48
13	21,772.36	36,495.84
14	23,115.23	40,317.43
15	24,540.93	44,539.19
16	26,054.56	49,203.03
17	27,661.55	54,355.23
18	29,367.65	60,046.93
19	31,178.99	66,334.63
20	33,102.04	73,280.73
21	35,143.70	80,954.18
22	37,311.29	89,431.14

23	39,612.57	98,795.75
24	42,055.78	109,140.96
25	44,649.69	120,569.45
26	47,403.59	133,194.64
27	50,327.34	147,141.86
28	53,431.42	162,549.54
29	56,726.95	179,570.60
30	60,225.75	198,373.99

The key lies in your facts. Your facts include your business activities, your investment activities, and your personal activities. They also include how you keep track of your activities. All taxes are based on your facts and circumstances. So if you want to change your tax, change your facts. It's that simple.

This book is dedicated to teaching you how to change your facts so you can lower your tax. You will also learn the principles of building wealth. The facts you must change to reduce your tax will at the same time increase your income. You will become one of the wealthy for whom the tax law was written.

Beware of Tax Preparers who:	
1.	Promise they can lower your taxes and who are really tax cheats.
2.	Focus on postponing or "deferring" taxes to a later year. Real tax planning is permanent so you never have to repay the taxes.

So stop letting the IRS (the U.S. Internal Revenue Service), CRA (Canada Revenue Agency), HMRC (Her Majesty's Revenue & Customs), or other government agencies steal your money. Don't let them steal your time. It's time to get out of prison and the shackles that bind you. As you learn the truth about taxes, the truth will set you free. You will have the time and the money that you want so that you can live your dream of financial freedom, comfort, and security.

CHAPTER 1: KEY POINTS	
1.	Become one of the wealthy and stop giving the IRS your time. Learn to trade your money for time and engage in activities the government uses to shape the economy. Remember, the tax law is a series of stimulus packages for entrepreneurs and investors.
2.	Taxes are based on your facts and circumstances—changing your facts will change your tax.

Tax Strategy #1: Include Tax Planning in Your Wealth Strategy

Too many people ignore taxes when investing and planning their wealth strategy. They look at the return on investment as the return before they pay taxes on their investment income. This makes no sense. With taxes as your biggest expense, wouldn't you want to look at every return on every investment after taxes? When you do, you may find that you are making a lot less on some investments than you thought and are making more on others in comparison.

Let's take a couple of examples in the U.S. that we will go into in much greater detail later on in this book. First, let's look at real estate. Regularly, I hear on the news that real estate is only a moderately successful investment on average. And if you were to compare it directly to some other investment before tax and without leverage (i.e., debt), you would have to agree. Let's say you purchased a rental property for $500,000,

with $100,000 of your own money and $400,000 of the bank's money. Suppose that the annual return on your investment of $100,000 is 7%. Then, let's suppose that you make a similar investment of $100,000 in the stock market that returns 10%. Which investment is a better return? It seems obvious that the stock market return of 10% is clearly better than the real estate return of 7%, right?

Not so fast. The 10% return from the stock market will get you $10,000 before taxes. You will pay capital gains tax of about 20%, counting both federal and state taxes, leaving you with an after tax return of $8,000. The 7% return on the real estate investment will get you a before tax return of $7,000. Due to the magic of depreciation (chapter 7), you won't pay any tax on your $7,000. Still, $7,000 is less than your after tax return of $8,000 in the stock market, so it seems you are still better off in the stock market.

Only, your real estate investment doesn't just give you tax-free cash flow. It actually reduces your taxes on your salary and/or business income, because while there is positive cash flow of $7,000, the depreciation deduction of about $27,000 gives you a tax deduction against your other income of $20,000 ($27,000 less $7,000 to offset real estate income). That $20,000 additional deduction against your other income is worth $6,000 of reduced taxes on your other income in a typical 30% ordinary income tax bracket.

So your real return from your real estate is $7,000 plus an additional $6,000 of tax refund on taxes you normally would have paid on your salary and business income for a total return of $13,000, or $5,000 more than your after-tax return from the stock investment.

This is just one example of how the tax law can have a dramatic impact on your cash flow and your wealth. If you computed your return just by looking at the cash flow before taxes, your return of $10,000 is way better ($3,000 better) than your return from your real estate. After taxes, though, it is the opposite. Your return from the real estate after tax benefits is $13,000 while your return from the stock market after tax is only $8,000. See why you should always consider taxes when you make your investment plans?