Transcript for Session 4

I. Discovering New Methods: Solidifying and Practicing Your Legal Status

[This is ***Strategic Living.***]

This course guides shrewd, diligent individuals such as you through the most efficient means for accumulating the greatest-possible wealth even if you are already wealthy.

This fourth session, **Discovering New Methods: Solidifying and Practicing Your Legal Status,** builds on your protection against privacy invasion and develops your protection against loss of income.

II. Your Fourth Step to Reach Your Financial Prosperity Goals

Would *legally* establishing and protecting your methods help you reach your financial prosperity goals?

Your fourth step is to begin systematizing your activity. Begin ***privately*** preventing ***everyone*** from holding you back from realizing your prosperity dreams, ***contracting*** with legal enforceability for generating revenue, and generating as much revenue as possible through ***agency*** in the name of the tax-free organization.

Before the modern "wage" became the norm, contracting was the way people made money. Whether they called it "contract," or "barter," or "agreement," or a "handshake," or just "a man is as good as his word," they exercised their constitutional rights to ***contract*** for their labor and to ***exchange assets*** (i.e., a sack of wheat for a day's labor, cash for the grocer's or pharmacist's bill, or a wagon for a plow). It was, of course, unnecessarily redundant to call it "***constitutional*** contracting," but that is, in fact, exactly what it was.

Incidentally, if you have read the e-book beyond the recommended 42 pages, specifically, **Appendix III: The Internal Revenue Code,** you have discovered that the US Congress has, until now, neither listed "wages" as "Gross Income" nor included "wages" in the list of "Items Specifically Included in Gross Income" or in the list of "Items Specifically Excluded from Gross Income." This is consistent with never enacting any law ***requiring*** individuals to pay income-based taxes after the US Supreme Court overturned the last income tax as unconstitutional but enacting laws ***encouraging*** employers to withhold such taxes from earnings and requiring such employers to pay to the IRS the liabilities thus created.

From the time individuals in the federal and most of the state congresses began creating the ***appearance*** of an obligation to pay income-based taxes, people have grown increasingly unaware of their constitutional rights to ***contract*** for their labor and to ***exchange assets,*** and they have increasingly believed that the only difference between a "wage" and a contract is the type of form the payer issues to the IRS each year. While it is still truly redundant to call it "***constitutional*** contracting," it is distinctly different—and characteristically much more befitting a responsible citizen—than acting as—to use the more familiar IRS label—an “independent contractor.”

III. Compounding: Interest Earned on Interest Earned

If you have not already been following along with the transcripts, it is recommended that you do so for these last two sessions.

The **Tax and Interest PowerPoint Audio Presentation and Workbook** accompanying the second session demonstrate the enormous cost of taxes and interest without a plan to keep these costs as low as possible. They also demonstrate the enormous ***reward*** for putting your money where it can participate in the general upward movement of the market but ***not*** participate in the various ***downward*** movements of the market. This enormous reward is clarified by the “Rule of 72,” which is simply a mathematical constant that indicates how long it takes for the value of money to ***double*** at a given rate of interest. The number 72 divided by the applicable interest rate equals the number of years it takes for the original value of money to grow 100%.

For example, $100.00 placed in a 2% money market account would take 36 years to double, or grow 100%, to $200.00: 72 / 2 = 36. It would take $1,000.00 18 years to double, or grow 100%, to $2,000.00 in a 4% certificate of deposit: 72 / 4 = 18. (Adding 4% interest to $1,000.00 at the end of the first year, the new balance would be $1,040.00. Adding 4% interest to that balance at the end of the second year, the new balance would be $1,081.60, which reflects an additional $40.00 in interest on the original $1,000.00 and $1.60 in interest on the $40.00 in interest from the previous year. Near the end of the eighteenth year, the new balance would be $2,000.00.)

How does compound interest work? The key to such growth is the function of compounding: not only does the ***base*** amount earn interest, but ***interest*** already earned ***also*** earns interest. The greatest accumulation of wealth can be realized over time by combining regular contributions with the best-available rate of compound interest. However, as the **Tax and Interest PowerPoint Audio Presentation and Workbook** also demonstrate, the greatest ***depletion*** of wealth can occur over time by combining regular purchases using revolving credit with an applicable rate of compound interest. As explained in the second session, the **first** part of efficient application of the “Rule of 72” is plugging the drain for interest expense that can be avoided.

The **second** part of efficient application of the “Rule of 72” is generating the best-available, ***compound*** interest ***earnings*** for maximum ***frequency*** of ***doubling your wealth***. For example, $2,000.00 placed in a 6% vehicle would take 12 years to double, or grow 100%, to $4,000.00: 72 / 6 = 12.

If you started at age 18, at 6%, that same $2,000.00 would grow to $32,000.00 by age 66:

$2,000.00 @ age 18 would become $4,000.00 12 years later @ age 30;

$8,000.00 @ 42;

$16,000.00 @ 54; and

$32,000.00 @ age 66.

Placing $4,000.00 in a 9% vehicle would result in $8,000.00 in just 8 years: 72 / 9 = 8.

If you started at age 18, at 9%, that same $4,000.00 would grow to $256,000.00 by age 66:

$4,000.00 @ age 18 would become $8,000.00 8 years later @ age 26;

$16,000.00 @ 34;

$32,000.00 @ 42;

$64,000.00 @ 50;

$128,000.00 @ 58; and

$256,000.00 @ age 66.

Naturally, continued contributions would make the amount at age 66 much larger. For example, ignoring the contributions in the next seven years, another $4,000.00 contributed just in the ninth year would increase the value at age 66 by another $128,000.00:

At 9%, $4,000.00 @ age 26 would become $8,000.00 8 years later @ age 34;

$16,000.00 @ 42;

$32,000.00 @ 50;

$64,000.00 @ 58; and

$128,000.00 @ age 66.

Add that to the original $256,000.00 for a total of $384,000.00—from the contributions from just two years! (Think what you could do with contributions from ***8*** or ***32*** years or more!)

IV. Maximum-Possible Account Value

How important is it that you pursue the lofty goals that this suggests? If you have been wondering about the ***need*** for the best-available rate of compound interest and the largest-possible account value, as Mandi Woodruff states in the article accompanying this session, "***today's 20-year-olds will need over $7 million.***" Recognizing this need, is it ***realistic*** to expect to generate this much wealth? In fact, it is ***entirely*** realistic. However, it is also ***absolutely necessary*** to start immediately, to obtain the best-available rate of compound interest, ***and*** to make consistent contributions so as to be ***prepared*** for your future living costs, possible sustained periods of poor market performance, and your future healthcare costs.

Obviously, if you generated an account value of only $100,000.00, even with 10% interest, adjusted by inflation, you would deplete your account value fairly quickly, and then you would enjoy neither income from interest nor income from your account value, and you would not be able to cover either your living costs or your healthcare costs. If you could ratchet your account value up to $250,000.00—a little better than just $100,000.00 but really not nearly enough—even with 10% interest, your interest return would be only $25,000.00 each year—not phenomenal, considering the effects of inflation, but still much better than what you could do with only a hundred grand—and yet still not enough to cover your share of healthcare costs. (Truthfully, compared to ***typical*** methods, and thanks to **compound synergy,** implementing all five steps for observing ***all*** ***three* principles** in combination for achieving financial prosperity makes accumulating a quarter of a million dollars or more an easy task.)

Why, though, is even ***a quarter of a million dollars*** not enough? You need a hedge against both inflation and possible sustained periods of poor market performance. After accumulating $250,000.00 with contributions and compound interest, if the market experiences zero growth for several years, your interest earnings will be correspondingly poor—not enough to live on and certainly not enough to cover healthcare costs if you are no longer earning income from working—and you will need to deplete a significant portion of your account value, significantly reducing your future interest-earning ability. As in the $100,000.00 example, you would deplete a $250,000.00 account value fairly quickly if you were not also enjoying a sufficient interest return, adjusted by inflation. If you could ratchet your account value up to ***a whole million*** dollars, it would provide an annual, inflation-beating income of $100,000.00 perpetually at 10% interest or an annual, inflation-***fighting*** income of $25,000.00 either perpetually at 2.5% interest or for forty years with no interest until being depleted.

You also need a hedge against ever-increasing healthcare costs. In fact, as Emily Zulz highlights in the article accompanying this session, a couple turning 65 today can expect to pay ***more than a quarter of a million dollars*** out of pocket in the next twenty years ***just for healthcare***—an average of upwards of $12,500.00 each year. Even if you ignore this fact, as you work for years and then decades, all-the-while growing increasingly accustomed to spending every penny you earn on your lifestyle, you will start recognizing—if not ***feeling***—the increasingly urgent need to save money for later and to work ***harder*** to do so even if your strength and energy are beginning to fail you. If you happen to enjoy particularly good health and, accordingly, do ***not*** start recognizing this increasingly urgent need, you could cause yourself unnecessary distress in the event of a sudden and urgent need for money just for medical care. If you happen to assume that the healthcare system will simply take care of you for free if you do not have enough money in such an event, the sad fact is that even the excellent medical care of the fifty united States is simply not available for free. Even after you qualify for benefits at age 65, heavy restrictions are placed on payments for medical care and services through Medicare. If you want to avoid being financially miserable in your golden years, you need to start accumulating permanently-risk-free-tax-free-compound-interest-bearing wealth ***now*** so you can ***afford*** the out-of-pocket ***supplemental*** costs of Medicare, either by means of a considerably expensive Medicare supplement insurance policy or by means of your own sources of cash.

If you cannot afford medical care through Medicare, can you qualify for Medicaid? The sad fact is that, if you do not take the initiative to accumulate sufficient wealth to cover your share of healthcare costs, the government will force you into even deeper poverty before giving you the care you need. The government has made it possible for qualified individuals who are simply—and ***demonstrably***—financially destitute to receive necessary medical care through Medicaid, a State program that is federally supported. However, many applicants with non-cash assets must live through what is known as the "spend-down funnel" and ***divest*** themselves of their assets so as to ***qualify*** for Medicaid. This is not a problem for an applicant who does not own any significant personal or real property and so is already considered qualified. However, another applicant may find it especially difficult to qualify due to unwillingness to "let go" of personal and real property such as extra vehicles for transportation, recreational vehicles, land, and/or a second home.

Now that you are generating additional streams of income by lawfully avoiding taxes, revisit the **Tax and Interest Workbook** accompanying the second session and recalculate your monthly savings and retirement account and distribution values. Open the spreadsheet workbook containing the calculations you saved with a new name, click on Tab 15, the Monthly Saving Schedule worksheet, and add to the amount in the green box for Savings Budget the tax savings you have realized. (The red box for Taxes on Tab 13, the Monthly Budget worksheet, estimates your current monthly federal income, social security, and Medicare taxes—or self-employment taxes, if you are self-employed. Your current records indicate any state income taxes.) Click on Tab 19, the Summary worksheet, to see your recalculated **Total monthly retirement income,** and save the spreadsheet workbook under another new name for your new calculations.

Now that you understand that the enormous cost of taxes and interest without a plan to keep these costs as low as possible can make it extremely difficult for you to accumulate sufficient retirement wealth and income, you also understand that the recalculated **Total monthly retirement income** on the Summary worksheet is your ***loss*** of sufficient retirement wealth and income if you do ***not*** implement all five steps for observing all **three principles** in combination for achieving financial prosperity.

Realizing that, by properly and immediately applying what you are learning, a six- or even seven-figure retirement account is, in fact, ***easily*** within your reach should enhance your appreciation of the value of contracting for it—to make it a matter of ***law*** and to ***systematize*** it so that your account value will ***truly*** grow large enough for you to stay well ahead of inflation and enjoy a six-figure annual interest income for the rest of your life.

V. Constitutional Contracts

How should you contract for your wealth? Once you have completed Step 3, deposit the bulk of your revenues in the business bank account established in Step 3 (the ***private, levy-proof*** bank account you established as agent in another State or at least two hours' travel distance from your operating location), pay your business and personal bills from that account—although it is best to continue paying your mortgage, car payments, and any other bank loans in your personal name from your personal bank account.

Since you will be generating revenue not only in the name of your own business but also as agent in the name of the private, lawfully-income-tax-free organization, there are three sub-steps to implement pursuant to your right to ***contract.***

First, execute a legally-enforceable contract between your corporation, partnership or LLC and the tax-free organization. Accompanying this session is a template Private Contract for Exchange of Assets, which can be used for services or anything else for which you wish to execute a private, lawful, constitutional contract. (Contracts should always be executed ***only*** by at least two legally separate parties.)

Second, generate as much revenue as possible as agent in the name of the tax-free organization and deposit all of it in its ***private, levy-proof*** business bank account. (Occasionally, it is not possible to generate revenue in the name of the tax-free organization, in which case only the first and third of these three items apply.)

Third, pursuant to contract, write corporate or LLC (but ***never*** personal) checks to the tax-free organization, take ***deductions*** for everything your corporation, partnership or LLC pays to the tax-free organization, deposit these payments as agent in the ***private, levy-proof*** business bank account of the tax-free organization, and pay your business and personal bills from the ***private, levy-proof*** business bank account of the tax-free organization—although it is best to continue paying your mortgage, car payments, and any other bank loans in your personal name from your personal bank account.

What if a Form 1099 is issued on revenue generated in the name of the tax-free organization? Once you begin executing constitutional contracts in the name of your corporation, partnership or LLC and in the name of the private organization you use for business purposes, it is of little relevance if the other parties to your contracts issue forms to the IRS each year for payments made to the lawfully-income-tax-free organization since this organization pays no income tax but voluntarily ***files*** federal income tax returns anyway. Since the lawfully-income-tax-free organization has no income tax liability, any forms issued to the IRS for payments made to the lawfully-income-tax-free organization have no tax impact on the organization or any individuals with private membership in the lawfully-income-tax-free organization.

Step 4 allows you to arrange your personal taxable income to be below the taxable threshold and pay ***zero*** state and federal income tax—or at least as little as you wish, according to your personal strategy. (Filing income tax returns and paying ***something*** in income tax from year to year is what some wealthy people call 'throwing the IRS a bone' to chew on until the next year. Refer to the Taxable Threshold document accompanying the third session.)

If you are an employee but have not already done so, submit an updated "W-4" payroll withholding allowance certificate to each of your employers to reduce the amount of federal and state income tax withheld from your gross earnings. With the goal of reporting less taxable income than your taxable threshold on your next income tax returns, indicate as many as nine withholding exemptions to limit your income tax withholdings.

VI. Proper Methods

Develop a solid understanding of not only your constitutional and lawful rights and privileges but also proper methods for exercising them. Also develop a solid understanding of proper methods for lawfully avoiding at least two categories of taxation: state and federal income taxes.

Now that you have registered your business in your State and obtained membership in at least one private, lawfully-income-tax-free organization, there are four ***additional*** categories of taxation you may be able to avoid. If you have been paying "wages" through your existing business, you may be able lawfully to reduce—or even avoid completely—state and federal unemployment taxes and the employer's share of social security and Medicare taxes (and create four corresponding additional streams of income).

If the total amount of these four additional categories of taxation is significant, you may wish to recalculate your **Total monthly retirement income** again and save the spreadsheet workbook under still another new name for your latest calculations. Your current business records indicate any tax costs such as federal and state income, federal and state unemployment, and employer's share of social security and Medicare taxes.

If you have been paying ***yourself*** a "wage," and if you reduce your ***personal*** "wages" so that your personal taxable income is below the taxable threshold, you might not be able to reduce your ***federal*** unemployment tax cost on yourself—unless you pay yourself less than $7,000.00 a year—but you might be able to reduce your ***state*** unemployment tax cost on yourself, depending on your State's "wage" base (unemployment taxes are paid on the first "wages" paid each year, up to specific "wage" limits). Either way, reducing your personal “wages” will result in a corresponding reduction in the employer’s share of social security and Medicare taxes.

If you have been paying ***others*** “wages,” and if you want lawfully to reduce or avoid completely the corresponding state and federal unemployment taxes and employer’s share of social security and Medicare taxes, execute a personnel lease agreement between your corporation, partnership or LLC and the private, lawfully-income-tax-free organization. Accompanying this session is a template Personnel Lease Agreement. (Such agreements should always be executed ***only*** by at least two legally separate parties.)

E-mail your first name, State, phone number, and the best time to reach you with assistance in this regard.

VII. Records and Analysis

How should you keep your records? It is important that your strategy includes keeping records of activity for the ***private, levy-proof*** bank account for the tax-free organization ***separate*** from records of activity for your ***non-private*** bank account for your corporation, partnership or LLC. (You may even wish to rent a safe deposit box for this purpose where you have the ***private, levy-proof*** bank account.) It is also important that your strategy includes keeping good records so you know what each organization is doing, namely, how much taxable income you are generating through your taxable business and how much non-taxable income you are generating as agent through the tax-free organization. At the very least, this will allow you to compare how well you do with what you are learning to how you would have done ***without*** it.

How can you make this comparison? An Excel spreadsheet containing Estimated Tax Calculators accompanies this session for calculating your current-year “1040”-amount due and for calculating what your current-year “1040”-amount due would have been without the benefit of what you are learning. Once your financial statements are complete for each quarter, use the Estimated Tax Calculators spreadsheet to estimate your income, social security, and Medicare taxes burden. Select the tab for the appropriate quarter just ended, fill in the green boxes to determine any estimated payment due for the quarter, and save the spreadsheet using the date of the last day of the quarter. Then recalculate without the benefit of what you are learning and make note of the differences between the annualized federal income tax and self-employment tax calculations.

How can you determine what you ***would*** have paid without the benefit of what you are learning? For your first calculation, enter your total gross wages, if any, and your share of the profits of your S-corporation, partnership or LLC, which is 100% if you do not have a partner. For your second calculation, enter your total gross wages, if any; your profits as a sole proprietor, if you had not registered your business other than as a sole proprietorship before taking this course; and your share of the profits of your S-corporation, partnership or LLC, if you had already registered your business other than as a sole proprietorship before taking this course; and then adjust your profits. ***Add*** to your profits the amount of the total payments you have made pursuant to contract from your corporation, partnership or LLC and deposited into the ***private, levy-proof*** bank account for the tax-free organization. ***Subtract*** from your profits half of the business expenses you have paid for charitable contributions and meals and entertainment. (If you originally registered your business as a "C-corporation" and will not be electing to treat it as an "S-corporation" for income tax purposes for the current and future tax years, your "C-corporate" profits are not part of your Estimated Tax Calculation for your "1040"-amount due.)

Another reason it is important to ***contract*** for your labor and to keep good records is that operating with ***cash*** can be devastating to your financial prosperity. Although it is your constitutional right to accept but not record cash—under the watchful eye of the IRS, this is typically called getting paid "under the table"—generating unrecorded cash revenues typically results in unrecorded-and-unnecessary cash expenses that also diminish your ability to accumulate wealth. Accordingly, ***recording and depositing*** cash revenues typically plugs another drain on your financial welfare.

E-mail your first name, State, phone number, and the best time to reach you with assistance in regard to keeping records, using the Estimated Tax Calculators, and/or making Estimated Tax Calculations for a "C-corporation."

VIII. Advantageous Application

How are you benefitting from all of this? With statutory and practical guarantees for your success, you are further reinforcing your wealth-generating power as you implement all five steps for observing all **three principles** in combination for achieving maximum-possible financial prosperity. In so doing, for example, an 18-year-old can achieve additional wealth of literally 40 times what he would otherwise voluntarily—and, in most cases, ***unwittingly***—contribute in federal income taxes alone beyond the requirements of the actual language of the law.

Let us review. **Your fourth step is to begin systematizing your activity.** Add to your strategy a specific plan to generate compound interest so as to realize maximum-possible account value, a specific plan to keep good records so you know precisely how well you are doing with what you are learning, and a specific plan to arrange your personal taxable income to be below the taxable threshold so as to pay zero state and federal income tax—or at least pay as little as you wish, according to your personal strategy. Use the document accompanying the third session to calculate your Taxable Threshold.

Why settle for ***pathetic*** interest and ***never*** double your money when you can enjoy ***phenomenal*** interest—***compounded***—and watch your money double ***repeatedly*** over the course of your lifetime?

What do you need to do? Once you have completed Step 3, deposit the bulk of your revenues in the ***private, levy-proof*** business bank account established in Step 3 (the bank account you established in another State or at least two hours' travel distance from your operating location).

First, execute a contract between your corporation, partnership or LLC and the private, lawfully-income-tax-free organization.

Second, generate as much revenue as possible as agent in the name of the private, lawfully-income-tax-free organization and deposit all of it in its bank account.

Third, write corporate, partnership or LLC (but never personal) checks to the private, lawfully-income-tax-free organization—pursuant to contract—take deductions for everything your corporation, partnership or LLC pays—pursuant to contract—to the private, lawfully-income-tax-free organization, deposit these checks in its bank account, and pay your business and personal bills from its bank account—although it is best to continue paying your mortgage, car payments, and any other bank loans in your personal name from your personal bank account.

If you are an employee, submit an updated "W-4" payroll withholding allowance certificate to each of your employers to reduce the amount of federal and state income tax withheld from your gross earnings. With the goal of reporting less taxable income than your taxable threshold on your next income tax returns, indicate as many as nine withholding exemptions to limit your income tax withholdings.

With the fifth session, you will begin implementing the final sub-steps for capitalizing on the **compound synergy** for achieving an annual, six-figure, tax-free interest income for the rest of your life.