

# How to get passive income from your business

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# **What is passive income?**

Income generated by a trade or business activity in which the taxpayer does not materially participate

# Types of passive/investment income

- Rental Income
- Dividends
- Interest

# Passive Income Program Benefits

- Passive income for the business owner
  - Deductible
  - No payroll taxes
  - No 3.8% Medicaid surtax
- Passive income Program provides a secure family legacy
- Creates a Large Tax Preferred Pool of Capital for your business
- Keeps More wealth in the family

# How it works

- You help your business cash flow with a personal loan
- Your business repays the loan monthly with interest
- Interest paid to you = Tax deductible Passive income

# Passive Income

Unsecured line of credit



# Unsecured line of credit – the rules

- Must be an “arms length” transaction
  - Written agreement between you and your company
  - tax deductible interest (*passive income*) is paid to you from your company
  - Updated corporate minutes
  - Annual accounting for passive income

# Unsecured line of credit – quick facts

- Interest and fees are the basically same as your credit card
- Your credit line limit is the sum of your annual expenses
- Maximum credit line advance is  $1/12^{\text{th}}$  of annual limit advanced



Monthly expenses of \$20,000

**HYPOTHETICAL ASSUMPTION**

# How it Works



**Step 3** - pay back your personal loan made to your business

Pay back monthly loaned principal to insurance policy



Loan interest = passive income paid back to you monthly  
Tax deductible by the business with no payroll taxes



**Life Insurance**

**Reposition funds— Step 1**



Loan business money from your insurance policy to help pay monthly bills

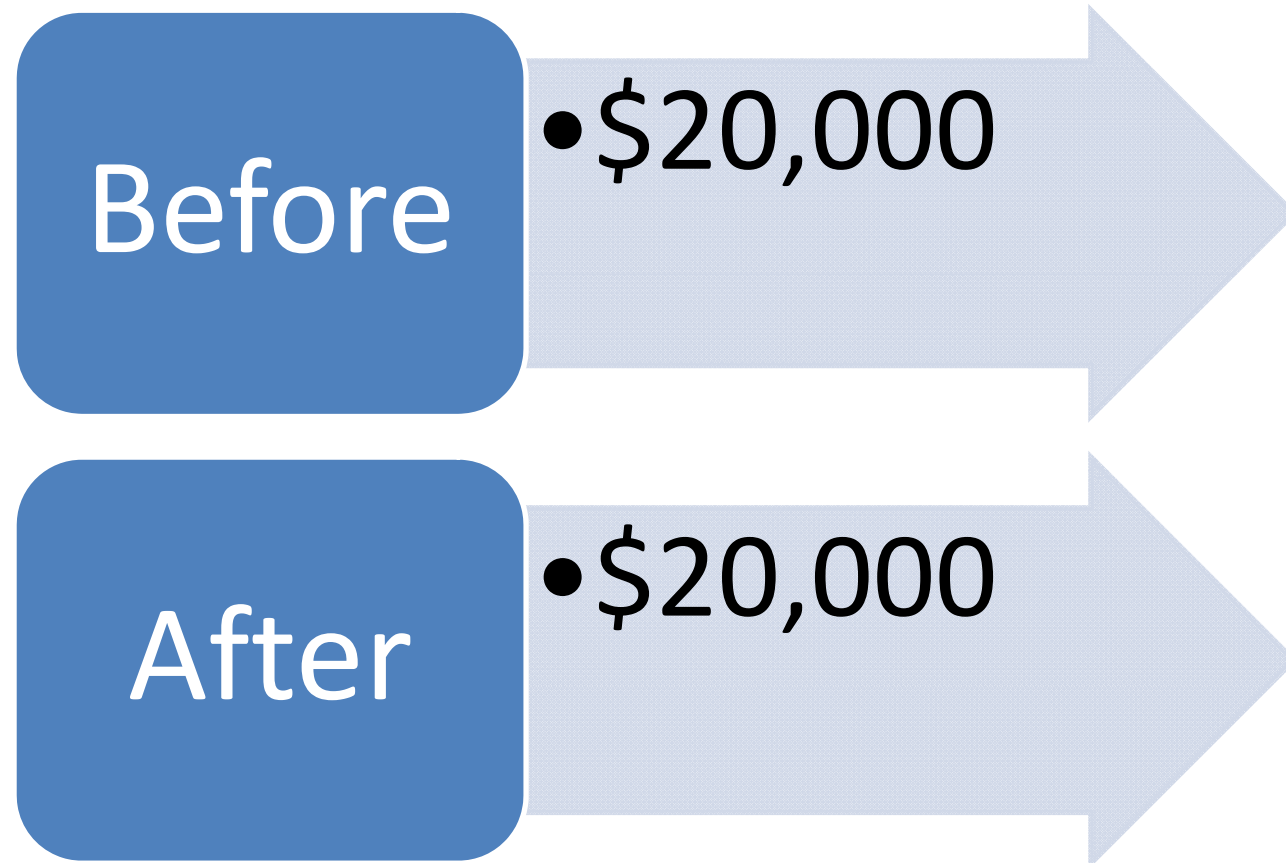
**Personal Asset**

Very similar to a reverse mortgage on your life insurance

**Loan the biz money - Step 2**

## Assume monthly expenses of \$20,000

*no change in the initial value of your repositioned asset – personal loan to your business*



## Capital pool in 30 days

Personal  
Asset

- \$20,000

1st  
month

- \$20,000
- Plus interest

# Capital pool in 12 months

1<sup>st</sup>  
month

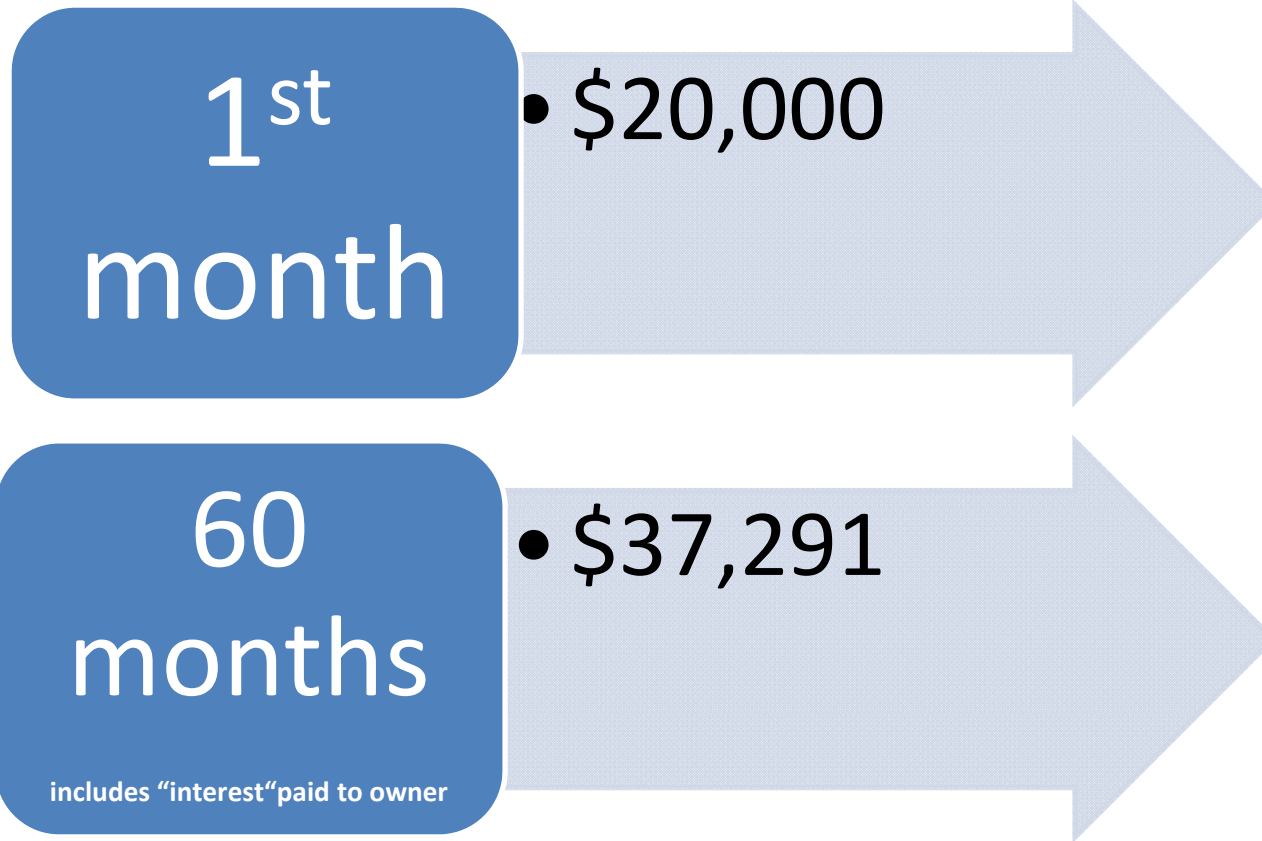
• \$20,000

1st Year

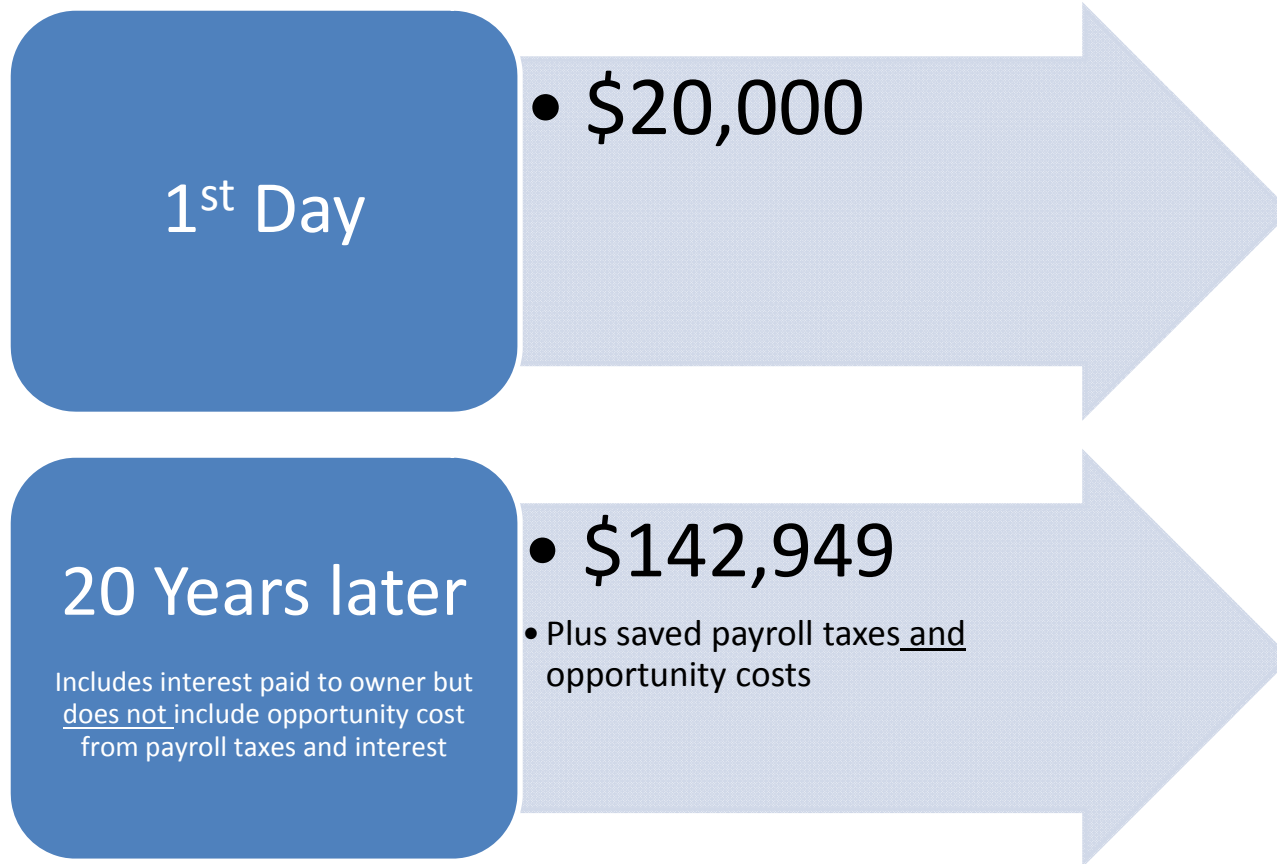
includes interest paid to owner

• \$22,183

# Capital pool in 60 months



# Passive income capital pool in 20 years



**Legacy**  
**Male, age 41**

**Before**

- None

**Day 1**

- \$594,187

**Tax  
Free**



# Passive Income Program Details

- Detailed instructions for keeping your loan “arms length”
- Sample corporate minutes
- Sample loan agreement
- Forms to request funds to loan to business
- Forms to repay funds and interest
- Cash flow worksheet
- 1099 information for the CPA
- Please consult with you tax/legal advisor

# Results

- Passive income has NO PAYROLL TAXES
- Systematic tax –preferred pool of capital is created
- Tax deductible family legacy benefits
- No “*imputed*” costs - i.e. PS 58
- Immediate increase in net worth
- More wealth stays in the family

# Implementation

- Determine eligibility
- Cash flow review
- Review your funding source
- Plan documentation