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INTEREST-ONLY LOANS

BY L. CARLOS LARA

THE WORLD POPULATION CLOCK¹ IS CURRENTLY registering 7.6 billion people on the planet. Among those 7.6 billion people, *Forbes*² has identified only 2,208 individuals who are billionaires from 72 different countries. Based on this information our chances of ever becoming a billionaire are pretty slim —somewhere around 0.00002%.

What's more, the United States ranks third in the world, next to China and India, as the most

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populated country on earth and in 2018 registered 540 billionaires on its own home turf, again according to *Forbes*. One point of relevant curiosity is that our President, Donald Trump, is listed as number 69 on that list and is probably one of the most closely watched billionaires in the world. But then again, all billionaires are always under scrutiny. Their big incomes, wealth, and lifestyles are tremendously alluring to most of us.

Also relevant to this article is this perspective. According to the Tax Policy Center



“roughly 80 percent (*of revenue for the federal government*) comes from the individual income tax and the payroll taxes that fund the social insurance programs. Another 9 percent comes from the corporate income tax, and the rest is from a mix of sources.”³ All total the government took in \$3.3 trillion in taxes in 2016, with data such as this always running a few years behind.

Although big incomes don't always correlate to wealth in terms of balance sheet assets, the Internal Revenue Service's *Statistics*

of *Income*⁴ report, like the *Forbes 400 List*, is also always of special interest. In their latest issue that was just released to the public, the IRS has once again disclosed the incomes and tax shares of the 0.001%.

This elite group of individuals had always been left undisclosed from these public records until 2015. I remember when they first came out with this report based on 2012 data. They were fascinating to study.

Even more impressive was their average tax rate, which was only 23.9 %. Compare that to what your tax rate is.

I did a presentation on this IRS report in a St. Louis seminar in November 2015 that was captured on film and later placed on YouTube here: <https://www.youtube.com/watch?v=XPU1WcL8WMA>

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This year's (2018) report based on 2015 data was equally intriguing. The top 0.001%, which represented only 1,412 tax returns from the entire 141.2 million returns filed that year, had an *Adjusted*

Gross Income (AGI) of at least \$59,380,503. In other words, this is the minimum amount of money you would have to have made to be classified with this group. Their *average* Adjusted Gross Income was \$152,016,289. This gives you a good picture of why these people are indeed unique.

One other point of interest is this. With this much money these particular individuals paid a total of \$51.3 million in income taxes or 3.53% of the \$1.45 trillion in individual income taxes collected that year. Even more impressive was their average tax rate, which was only 23.9 %. Compare that to what your tax rate is and you will agree that the 0.001% actually do seem to receive a lot more tax breaks than the rest of us and these statistics from the IRS's bulletin underscore that fact.

On the other hand, the much publicized "*One Percenters, (1%),*" these are the individuals who are often portrayed as the rich and powerful, actually paid 39.3 % of all income taxes collected that year. Notably there are 1.4 million individuals in that category and



the numbers do add up to make that difference. Yet their *minimum* Adjusted Gross Income was, by comparison to the 0.001% group, a mere \$480,930.

By studying this report carefully we can easily see why the top 4% of high-income earners, which includes the 3%, 2%, 1%, 0.01% and the 0.001% pay 56.4%, or more than half of the country's individual income taxes. It's well worth accessing a copy of this 12-page report and studying it. You can access a copy from the references section at the end of this article. It does a great job of spotlighting where money is concentrated in the U.S.

IS THIS WHY WARREN BUFFETT SAYS HE PAYS LESS INCOME TAX THAN HIS SECRETARY?

We've all heard the story where Buffett has confessed that he pays less income tax than many of his own employees, even his own secretary. But how does he actually accomplish this? Some believe that it is the work-



ings of the “carried interest tax loophole,” which allows managers of certain private equity funds to treat the bulk of their earnings as long-term capital gains.⁵ But most analysts that study the financial moves of the wealthy assume that, not just Buffett, but most wealthy individuals borrow against their assets to support their lifestyles rather

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than pay themselves income. “How so,” we ask?

Well, let's think about it. Do we doubt for a moment that a billionaire like Buffett could walk into his bank and ask for an *interest-only* loan (with some of his wealth serving as collateral) to pay for his annual personal expenditures of, let's say, one million dollars (\$1,000,000) a year? I don't think so. Not only would the bank rush to give it to him, they would probably only charge him 1% interest or less because Buffett most likely has an enormous amount of money on deposit in their coffers. Let's not forget that banks make money from deposits. But bottom-line the simple reason for this low rate is because

it's virtually *zero-risk* for the bank. After all, Buffett has the assets to cover the loan if things should go wrong.

This is why Buffett could walk in to the same bank the following year and request an additional million dollars. There is no question that the bank would give it to him. This would be the case even if Buffett hadn't even paid the principal or interest on the first loan! In fact, is there any doubt on the part of any of us that he could not repeat that same process each year for the next 10 years, if he lives that long? And, why wouldn't he repeat this

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scenario, after all, that money would come into Buffett's possession income tax free because it's in the form of loans.

After ten years with \$10 million in loans plus all that accumulated interest still due, is the bank worried? The answer is no. He has the assets to easily pay it all off when ever. If he should die in the process his estate's Executor will write a check for it. He's good for it and that's what we all recognize as *leverage*.

These incredibly flexible loan terms and



low interest rates are always available to the ultra rich, but the average Joe—even if he has a steady job, always pays his bills on time, and has an excellent credit score—cannot do this sort of thing.

There are other reasons why the bank would be so accommodating. For example, if it will lead to more business between Mr. Buffet and the bank it will naturally result in enormous term flexibility and an attractive rate. In effect the ratio between the amounts of money on deposit compared to the amount being borrowed actually drives the lending rate. But Buffett, Gates, Bezos and wealthy individuals like this can walk into any bank and practically demand this sort of profitable negotiation because it works for both parties.

WHY NOT JUST SPEND YOUR OWN MONEY?

The reason Buffett wouldn't just spend his own money is because his money is already somewhere else working hard earning much more interest and dividends than the cost of borrowing. It's more profitable to place your

investments up for collateral on loans than to tap into those investments.

In addition to this, the analysts say that the wealthy work very diligently at minimizing their tax liability, which is one of the primary reasons they are wealthy. Besides market volatility and inflation, taxes greatly erode wealth, and individuals like Buffett know this. This is why the wealthy, through their high-priced tax advisors, are constantly seeking out tax-advantaged strategies to minimize the tax bite and this maneuver that we have been discussing is certainly one of them.

IBC ALLOWS YOU AND ME TO LIVE LIKE THE WARREN BUFFETS OF THE WORLD.

Fortunately there is a strategy very similar to Buffet's idea that is available to the average household and closely held business. It's called *The Infinite Banking Concept (IBC)*, and if you have never heard of it it's mostly



because it's still one of the best-kept secrets around. Discovered and created by R. Nelson Nash, the entire idea is explained in detail in his book, *Becoming Your Own Banker* written in 2000.

Since Nash is also a student of Austrian economics like Bob and me, we came along later and wrote *How Privatized Banking Really Works* in 2010 because we saw that IBC

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provided a solution, not only for the individual, but also for the general economy at large. This year (2018) Nelson Nash, David Stearns, Bob and I have teamed up and just released a new book entitled, *The Case for IBC*, which provides even more “how to steps” for getting IBC started in your life. You can obtain a copy at www.thecaseforibc.com. But if you want a complete immersion in IBC you should attend one of our live IBC Seminars for the general public put on by the Nelson Nash Institute and presented

by Bob and myself. You can learn more about the IBC Seminar at <https://ibcseminar.com>.

One thing for sure, IBC works best with those that keep a close watch over their incomes and expenditures using their tracking methods as a way to gauge their financial performance. These are individuals that as a rule understand *cash flow* and how to best optimize it in order to save and invest their money. If you already understand the fundamentals of *cash flow management*, then you will certainly understand IBC and be able to see beyond the banking and life insurance terminology associated with it.

For those that are already familiar with IBC and are actually practicing IBC then you have recognized already how IBC literally mimics what Buffett and other wealthy people do. In fact, all of the principles discussed in *An IBC Tax Strategy*, an article that appeared as a three-part series last year in the *LMR* in a real way resembles the Buffett strategy. Besides the tax benefits found within the IBC strategy I specifically mean the following:

1. **Accesses and Control Over Your Money.** If you have cash value in your policy (alternate bank) then you have contractual right to loans whenever you need them.
2. **Flexibility of Repayment Terms.** Although an outstanding policy loans roll



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over at interest, you can pay them back on your own schedule, or even not at all if you wish.

3. **Uninterrupted Compounding Of Your Money.** Whatever amount you borrow—that same amount continues to earn money in the form of interest, dividends and equity in your policy for as long as you live and as long as your policy remains in force.

So yes, relatively speaking, IBC allows av-



erage people like you and me to live like the Warren Buffett's of the world.

Conclusion

What this article has attempted to demonstrate is that the multi-millionaires and billionaires of the world are, because of their immense wealth, separated into a class unto themselves. In a way, because of their wealth,

they have managed to separate themselves from the everyday fray the average individual has to contend with. In effect, the immensely wealthy have managed to secede from the monetary regime that is imposed on everyone else.

Fortunately there is a way out for us too. We too can secede from our current monetary regime one household and one business at a time. It's called IBC. ◆◆◆

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