**Matt Robison** 00:00
So wait, billionaires avoid a lot of taxes.

**Mike Morton** 00:04
Yeah, they don't pay any tax,

**Matt Robison** 00:06
and that's something that you and I could do too.

**Mike Morton** 00:11
No.

**Matt Robison** 00:14
Hey, it's Five Minute Finance. I'm Matt Robeson, and that is Mike Morton, our certified financial planner, who is here to lighten your load, not optimize the ever living you know what out of you, just get you an awesome solution and get you on your way, so you can live your life. We are talking today about whether you could maybe hack your way to the same tricks that billionaires use to avoid paying taxes, and I don't want to totally bum people out this part, but you're saying you're saying there's a chance,

**Mike Morton** 00:46
say there's a chance, no,

**Matt Robison** 00:49
but people will understand in this how billionaires do avoid paying their taxes, and why perhaps the rest of us can't quite use the same tricks.

**Mike Morton** 00:58
I think that's important thing here, because you hear like billionaires don't pay any tax, and how do they do, like, I don't understand, they're making like zillions of dollars, they have a billion dollars, they're making, you know, 10 million a year, 100 million a year, you know, like how do they not pay tax, and then, of course, like, is that something I can do, so let's break, you know, today I want to break down, like, how this works, and then you know, potentially what strategies may or may not apply to the everyday multi millionaire. Very

**Matt Robison** 01:28
good, very good. And, as if that understanding were not enough, hang on. As always, for our listener question, got a really interesting one today about what to do if you've got company stock, we've got a fascinating one thing that revolves around one of the wealthiest men on earth, and a surprising fact about him, and of course a really interesting distinction in our worth knowing

discussion about being in the top 1% so there's a lot jam-packed into the remainder of this episode, but should we talk billionaires?

**Mike Morton** 02:06
Let's talk billionaires.

**Matt Robison** 02:07
All right, here we go. All right, set us up here. Billionaires, they don't pay taxes. This sounds like bullshit.

**Mike Morton** 02:15
Yeah, let that exactly. So let's break down where taxes come from. The one, when we say the word taxes, what we're really saying in this one is income taxes. Okay, so do billionaires pay income taxes? And recall that you know when you make an income, you got a W-2 salary, you've got a job, you're self-employed, where you've got income, that is all income, and the government's really good at taxing income, like they have a really long code about how it works and what you owe, and they plug loopholes all the time, and the income tax code is pretty robust, like if you make income via W-2 or self-employed salary, you're going to get taxed on that,

**Matt Robison** 03:00
and the trick here is that billionaires don't necessarily make their money the way the rest of us do, right?

**Mike Morton** 03:08
Billionaires have already made their money, that's why they're a billionaire, and so now you're like, well, now you're a billionaire, why aren't you taxed? Well, because they have no income, remember, income is a salary from your job, and so maybe they're the CEO of a massive company, and you know what? CEOs can pay themselves whatever they want, so they could take zero income, and that's typically what they do. They're paid entirely in stock or options, or they just own all the stock already. That's why they're a billionaire, so they don't have any income, and they're not paying any income taxes now. Also, say this: here's the stat people throw around. Okay, Warren Buffett, he paid point 1% I have to pay like 24% 24% He paid point one, and Michael Bloomberg paid 1.3% You know, how come they're paying such a small rate? They're hardly paying any tax at all. Well, the reason that that number one I just told you, they hardly have any salary. The other reason is, you know, how it's calculated, it's the increase in their net worth, the increase in their stock versus what tax they paid. That's how those numbers are calculated, right? It's not like, hey, they made 100,000 and they paid 80 grand in tax, that's 80% No, they paid 80 grand in tax, and their net worth went up by 10 million, so it was point 1% The

**Matt Robison** 04:30

world is awesome. There's also an aspect of this that you get all kinds of helping hands, let's say, from the financial system, if you are in a position where you have lots of investable resources at your disposal.

**Mike Morton** 04:49
Yeah, absolutely, sure. I mean, you know, that's the same with anything, like more money, more power, more network, and stuff like that, but I think the big takeaway here is understanding. There, there is literally a difference between someone that's got, let's, let's just call it senti millionaires, you know, you've got over 100 million or 200 million up through billionaires, and what somebody that even has 20 million or 30 million, there's a difference between someone's got 30 million and then someone's got 300 million, and what you have access and be able to do,

**Matt Robison** 05:21
but I mean specifically and literally, if you have that amount of money at your disposal, financial institutions will let you get away with a pathway for you to live a lux lifestyle without having to have an income, or and you can, there's there's like a trick to this.

**Mike Morton** 05:40
Well, okay, yeah, so let's get into it. It's called the buy borrow die strategy, but let's get.. let me define it. And then, Matt, I want to answer some questions back and forth, because there's some stuff that people don't quite understand about how this works. So, buy, borrow, die. So, what you do is, or it should be borrow and then buy, then die. Okay, so you have I've got $300 million I got $1 billion and I want to buy a yacht. I want to buy this $20 million mansion. Okay, how am I going to get my $20 million to buy this mansion? I don't really want to sell my stock. Well, I don't have an income. I don't have 20 million of income, because I don't have, you know, I'm CEO of the company. I don't need the income, I give it to all my employees, so I don't want to pay tax. I don't want to pay 80% tax rate on my income, so don't bother paying me. So I don't have 20 million, so what I do is I'm gonna borrow the 20 million. Now I'm worth a billion. Okay, so 20 million is like it's changing the cushion. Okay, so I go down to my private bank, and I was like, I need to borrow 20 million. I got a billion, it's worth a billion in stock. They're like, no problem, we know you're worth a billion. Here's 20 million, you could pay us like 3% interest, you know, because we know you're good for it. So you're definitely paying us back. So, like, we give you super low rates, and here's your 20 million bucks. Then I go buy my house, so I didn't pay any tax on that, because I didn't. I don't have an income. I didn't sell anything. I just borrowed the money at 3% Now I do have to make payments, but luckily my stock is spitting off interest and dividends, you know, so I can make the payments no problem, because it's chump change for me. Okay, and I can go buy my yacht or my mega mansion. All right, now eventually I'm going to die, and the whole thing gets settled, but the estate gets settled. I'm going to avoid that conversation. It's gonna be another podcast about estate planning and avoiding estate tax, capital gains tax, inheritance tax, et cetera. But that's the die part, is like everything gets wiped

out, no one ever pays the tax. I mean, you still got to pay back the money you borrowed, and that's the important thing, so let's get to that question. Okay, so that's how it works for billionaires: you buy, borrow, and die, and no one ever pays the tax.

**Matt Robison** 07:48
Yeah, I, and just for people who are looking for a fun time, for a good time, search in your podcast feed, because we actually did a whole episode on this years ago about whether regular mortals could get away with this whole you borrow and that was sort of the sneaky message here, it's like, well, if you've got a billion banks are happy to do this, and for you it's like a perpetual motion machine because you're making a higher interest essentially on your assets, then you're paying to borrow the money, so you're actually making money if you're a billionaire by borrowing and using that for the spending in your life. The rest of us can't quite get away with that, without, but

**Mike Morton** 08:36
here's, here's why you can't get away with it. It's not only the engine of, like, your, your gains, it's literally the amount of money they're borrowing versus what they are worth. Matt, do you think you could go in the bank and borrow 20 bucks to buy groceries?

**Matt Robison** 08:54
Probably,

**Mike Morton** 08:56
probably. Do you think you'd ever have to pay back that 20 bucks? You think you could go the rest of your life without paying back the 20, sort of compounding interest. All right, maybe it goes to 80 bucks, and you die, and your estate has to pay off 80 bucks.

**Matt Robison** 09:06
I mean, eventually I'd get messages and phone calls and credit ratings, and there would be consequences

**Mike Morton** 09:13
for 20 bucks. Their chance, the point is that's the kind of exchange rates we're talking about. If you're a billionaire, that's what they're borrowing. It just isn't that much money, and so let's take it back. Hey, even someone that's worth 30 million, all right? Could I borrow a million dollars? Of course you can. So you're worth 30 million, you got 30 million of stock. You can go into the bank, they'll give you really good rates, and they'll let you borrow a million dollars, because they know you're going to pay it back. Also, you just can't go the next 40 years, that's 3% you know, that's going to compound. If you want to borrow another million, or so, now we're up to two or 3 million on your 30 million, that's 10% of your net worth. Okay, and you start borrowing that and letting that compound, it's just not going to play out, the numbers don't work. Yeah, the

**Matt Robison** 10:00
other thing that I've never understood in this whole equation, maybe you could just tell me, is like, so go back to your first example. I'm a billionaire, I like this already. I'm a billionaire, I'm borrowing 20 million, I'm paying 3% What is the source of my, like, I have to pay off the 3% every year? Like, what is the source of that? Am I just borrowing more from elsewhere?

**Mike Morton** 10:25
Yeah, you just borrow,

**Matt Robison** 10:27
and you just do it perpetually. And then, and then there's the die part of this, which I have to say, of the borrow and buy, I'd say the die is my least favorite part of it.

**Mike Morton** 10:38
Yeah, yeah, well, unless it's your uncle, I mean, if it's you, it's not so great, but

**Matt Robison** 10:42
yes,

**Mike Morton** 10:42
because your uncle following this strategy might be about time, I mean, that's what it is. Well, I think, I think to your question, it's like, yeah, you just keep borrowing, and then, of course, you buy, you know, you see people selling their homes too, like, oh, Taylor Swift, you know, sold this this mega mansion for 30 million, so like you're not always just like buying and buying and buying. Sometimes you're selling some of this stuff, or like your business venture, it's like, okay, you know, Larry Ellison is going to buy Paramount for, you know, $40 billion Well, he's just going to borrow the money, you know, because he's worth $215 billion and you know the stockholders and business exchanges and all kinds of stuff, like you get the money back, you know,

**Matt Robison** 11:24
yeah. And I, I think that's really the key of all of this, is that there are ways, and it's not that these people never pay taxes in any form. There are real estate taxes, there are, you know, if you are going to liquidate some of your investment holdings to free up some cash, you're gonna pay some capital gains, but there are a million other tax avoidance strategies here. The point being that at the end of the day, for this basic machinery of like paying for major things in your life, you don't have to do it because you have the assets to borrow.

**Mike Morton** 12:00

Yeah, you can buy, so it's so.. here's the key. Salaries are for suckers. When you have a salary and that's your income, you're paying income tax, and I told you the income tax, they're pretty good at, like, collecting their money, you know? Where they're not good at collecting money: wealth tax, estate tax, capital gains tax, business tax. You know, I want to start my business. I can start in Ireland and pay, you know, 10 cents or 15 cents. Plus, we can do all kinds of other business stuff. We can make trust and estate planning and gift tons of things, or create these these entity structures that avoid tons of tax, all right. So, income tax is where the government's really good, and that's why billionaires don't pay themselves income, because they can't get out of not paying it the income tax.

**Matt Robison** 12:52
Well, you said a bunch of important things in there, you're talking about estate, and you know, tax efficiencies, and I, that's really, I think, where we want to get to with this, because all of this is kind of intellectually interesting, and a little infuriating, and kind of fun to know for people, but I think your main point, if, unless I'm missing something, is that there are lessons that the rest of us can apply here to our own savings, investment, tax avoidance, etc.

**Mike Morton** 13:21
Absolutely, yeah. It means the stuff we talk about on the show all the time. Are there things you can do to compound your wealth to avoid, you know, paying tax, pay just the appropriate amount of tax? Absolutely. So, can you do the buy, borrow, die strategy? Probably not. Okay, because you just can't compound, you know, absorb that compounding borrowing, all right. Well, let's talk about some of the strategies we talked about on the show all the time. Can you create your own dynasty and dynasty wealth? Yeah, we had the episode on the five to nine. It's like a great poor man's dynasty, right? Like, you can put money in there, it compounds tax free, you can use it for your kids' education, grandkids' education, and keep it going tax efficient. So, we talked about, you know, what else do billionaires do? They never sell their stock. All right, you don't want to take the capital gains hit. Why sell the stock if I can borrow? So, same thing in our own stock portfolios, Matt. You want to have tax efficient, hold the right kind of funds hold the ETFs in your taxable account, you want to avoid paying capital gains tax, you want to gift it onto your, not gift it, you'd like to die with it, so you avoid paying capital gains at all, so there's a number of strategies that compound over time,

**Matt Robison** 14:35
and what it all kind of boils down to is just sort of the mindset of, okay, you can't borrow and kind of like set up that machine. You certainly can't do it the billionaire style of you actually end up ahead because you earn a higher percentage than you're paying out to borrow, but you can try to minimize your tax drag. That's the piece. Of this, oh yeah, you can do,

**Mike Morton** 15:02

yeah, absolutely, absolutely, and so the big thing here, and this is the five minute task for today, is understanding the difference between your income and the your own growth engine of your net worth or your wealth, all right, and this is really important because this is kind of how the billionaires do it. It's like, hey, I grew, you know, I started this company, it's worth a billion dollars, I own most of it, and now that billion is how I live my life, right? I no longer live off the salary. All right, so let's play it into our own lives. When we started, most people listening, get your first job, I have no net worth of making, you know, 15,000 a year part-time job, and then I graduate from college, or I get a full-time job making 40 grand a year, 5070, grand a year, whatever. You have nothing saved yet, and so that's literally what you're living off of. My 50 grand a year, and I'm saying I'm chipping away at the savings, I start saving a little bit, but that's totally everything's on the income side, right? Even the first 10 years, everything's still on the income side, slowly growing, but as you get in your 50s, 60s, now your wealth, the 401 k is your taxable brokerage account, maybe you gotta, you know, some stock equity compensation that vested, you know, so now you got 2 million like saved over there, that 2 million is compounding now almost faster than your income. Okay, so you're reaching that escape velocity, that retirement, right? Right now, it's like, oh, I don't need the income, my wealth is generating and compounding the income, the, you know, what I need for the future. That's that's what retirement is all about, you know, so I would do that calculation, say, like, okay, here's my household income, and here's my net worth minus what I'm saving, and check out that engine, and understand that engine is going to continue to grow faster than your income,

**Matt Robison** 16:57
and the one other dot I was hoping you'd connect, and then we can get out of here is what about the recent episode that we did of side hustles, other sources of income, passive income. It sounds like you're suggesting that sort of the lesson, the mindset you can take from the billionaire experience is how do you think about drawing more of your assets, more, more of your, your net worth through more tax-efficient means, like less salary, more like, well, this is a real estate holding, and you know, I can, I can hold on to it, it's going to have a different tax treatment, this is, you know, a different type of investment vehicle, perhaps it's, you know, like my own VC, and I'm going to have gains in this that are not going to be subject to capital gains, or I can hold them. How do you, how do you shift your orientation as you kind of like build your way up the wealth ladder, so that you, you are treated more like a billionaire and less like the rest of

**Mike Morton** 18:01
us, yeah, I would definitely take that into consideration. So those side hustle opportunities try to avoid the straight up income where you're trading your time for dollars and eventually you decide not to do that. That's totally cut off. So the simple one again is real estate. I'm going to trade some of my time for an investment like maybe I get some passive income, but I'm plowing a lot of it back in the business. It's actually under business structure, where I had this rental property or commercial property, so I'm spending, you know, 100 hours to research and find the right

thing and manage it, but it's adding to the net asset side, not the income side, and it's growing well through there, and anything that avoids income avoids the income tax is going to be beneficial when it comes to taxes,

**Matt Robison** 18:48
man. That's so zen of you. It's like to make more money, avoid income. There is no spoon. All right, anything else that's a bad.. there's no spoon, there's no spoon. All right, let's get to our listener question, and this week it's, I guess, it's somewhat related to the main theme here of other kinds of assets that aren't strictly straight up income. The question is, if I have a large amount of company stock or RSUs, how do I know when it makes sense to diversify versus hold? If you would answer that and remind us all what RSUs stand for. RSUs are

**Mike Morton** 19:30
restricted stock units. It is a bonus paid in stock, so it's taxed as a straight up cash bonus, the same as a cash bonus is taxed. My general recommendation is to say it again, which I've said in all the podcasts. It's a bonus paid in stock. Matt, if I gave you a $20,000 bonus, would you run out and buy your company stock? Most people say no, I already like work for the company, I already own a bunch of the stock, and so therefore I recommend selling RSUs as. A vest and diversifying that. Now that's exactly this question. However, if I have a large amount of company stock or RSUs, when does it make sense to diversify? Well, let me tell you a story. I have a friend of mine who worked for It Works for Nvidia, and this friend reached out to me and said my stock is now worth $4 million I'm thinking about, you know, trying to diversify and sell some of it, you know. And I was like, "Well, that sounds like a good idea, take some risk off the table, blah blah blah. You know, like the normal things we talk about on this podcast. And he nods his head, and a couple months later, I checked in. I was like, "Hey, did you, you know, have you started executing the plan to try to sell down some of this stuff? He's like, "I did a little bit, but not much. I was like, oh, okay, you know, taking a lot of risk. He's like, yeah, no, you're like the fourth or fifth advisor over the last four or five years I've just reached out to to get some, you know, professional help and support, and all of them told me the same thing. They told me at 500,000 they told me at 1 million, they told me at 2 million, they told me at 4 million, and if I had done it at the, you know, 500,000 I'd have 500,000 Now, instead, I have 4 million.

**Matt Robison** 21:07
There you go.

**Mike Morton** 21:10
So that's interesting, and so it gets back to this concept of, like, do you want to get rich or you want to stay wealthy, and only you can decide which strategy is more important to you at this moment, and for you, and for your family.

**Matt Robison** 21:26
All right. And if you have a question like this, and you're shopping around four or five different financial advisors, try Mike along the way. You can email him Pod at Morton fa.com Let's get to our one thing. All right, all right. This one's just, you know, you're throwing it in because it's on, it's on theme, but it's kind of interesting.

**Mike Morton** 21:49
Yeah, I find if Warren Buffett is about Warren Buffett, I find him fascinating. He still lives in the same house he bought in 1958 He still lives in the same house, but how long have you lived in one house? What's the longest you've lived in one house? 11 years, 11 years. Yeah, I'm trying to think for myself. The house I grew up in, so be 18 years, you know. So he's living there since 1958 and that's the fascinating thing about Warren Buffett. It's, yeah, he's super wealthy, like we're talking about today, but the one of the reasons he's certainly wealthy is because he's very smart and worked hard for many years, absolutely, and maybe gotten lucky too, and he'd claim the same thing, but the biggest thing I find fascinating is that he keeps the expenses low and lets money compound, he would definitely agree with where we started this episode. Don't interrupt compounding, leave the money there, just let it keep going, never sell, you know, just let it keep going. And he's been investing for 80 years or more, and that's why he's grown to such, you know, having such wealth.

**Matt Robison** 22:58
All right, this is a really interesting distinction that you're making here, and I'll let you do it. Yeah, so the top.. what is the top 1% What is the top 1% I would say it's anyone who is just beneath me. Define on what, like that's it,

**Mike Morton** 23:21
yeah, that's exactly so we say top, top 1% looks, oh yeah, yeah, totally, Matt, you're you're in the, you're in the hunt, so top 1% of income versus top 1% of wealth is totally different, right, so when we say like Bandy about, oh, they're in the top 10% top 1% You got to define, obviously, like, what are we talking about? So, the top 1% of earners, you'd have to be making about $700,000 a year to be in that top 1% of, yeah, about, yeah, about 600 700,000 a year to be in the top 1% of earners, does that surprise you?

**Matt Robison** 24:02
It sounds actually high. I would have thought it might have been slightly lower, you know, just given given everything you just explained about how people who are really rich don't make much in terms of income, you're what you're really talking about there is the high end of professionals who are still drawing a salary, so I guess the number makes kind of sense.

**Mike Morton** 24:29

All right, top 1% by wealth, Matt, top 1% by wealth is somewhere between 13 to 15 million of net worth. How does that strike you?

**Matt Robison** 24:42
Yeah, that, that feels to me like one of those.. it's a skewed average. There's something just under 1000 billionaires in this country, and it feels to me like they're really bringing that number up, because I would suspect. That the number of people with a net worth, well, I don't know, maybe, maybe I'm talking myself out of this, because on the other hand, there are a lot of people with small to medium size farms, you know, the kinds of holdings that could go into estates where your net worth, the value of that could be 10,000,015 20 million,

**Mike Morton** 25:21
yeah, one out of 100 people, right? 1% There's a lot of people, there's a lot of people that are just sitting on money, and they didn't even get it. They probably didn't get it from earning, that's the point of this episode. They didn't get it necessarily by making, you know, 500,000 a year, like it's hard to grow to 15 million just making the salary, because it gets taxed, you know, so high. A lot of those people, I'll bet you know, inherited money, they're in business, you know, family business, or they're in business in general, you know, compounding growth, getting a head start when they were young, etc. etc. Well, there you go. All right, 1%

**Matt Robison** 25:57
Well, guess what? I don't fit in either category, so it's all, it's all you know, like outside looking in, that's exactly something to aspire to. All right, speaking of aspiring, let's fire to the end of this episode for Mike, Matt. We'll see you next time.

**Mike Morton** 26:15
Thanks, Matt. Thanks for joining us on Five Minute Finance. If you like what you heard, please subscribe to and rate the podcast. It makes a huge difference for my show. You want more, find Morton FA on Substack. If you have a comment or question, please email pod at Morton fa.com Until next time, thanks for tuning in. This recording is for informational purposes only, and should not be considered for investment advice. Opinions expressed are as of the date of recording. Such opinions are subject to change. I cannot guarantee the accuracy or completeness of the data presented here.