FinancialCzar

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The Czar began this newsletter in 2008 as a periodic publication to share wisdom and information, and also to provide advice on issues most critical to our clients and friends. The response was outstanding and truly rewarding. This led the Czar to expand the idea and consider a communication medium even broader than the newsletter format. A blog seemed like the best option: ever-present, flexible, and simpler to administer.

So www.financialczar.net was formed and a variety of articles were posted. The site received warm and enthusiastic welcome and accomplished its goal. However, it was cyberspace and lacked the personal touch and feel the Czar desired. Besides, though not cannibalizing our main and valuable brand—Centilion—it was bifurcating it.

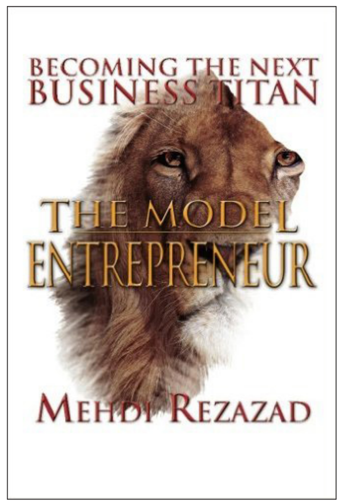
The main goal has been to serve our relationship with our clients and friends built over four decades. That relationship can be more effectively nourished and cultivated via this newsletter without collateral issues. Regardless, our constituents can expect the same pioneering, timely, and practical advice from the Czar, be it new concepts such as crowdfunding and rapid developments in offshore account monitoring by the IRS, or the classics such as tax planning ideas, business wisdom, and practical and intellectual support to individuals and business owners in their daily challenges. As always, serving the interests of our clients is the paramount consideration and our primary goal.

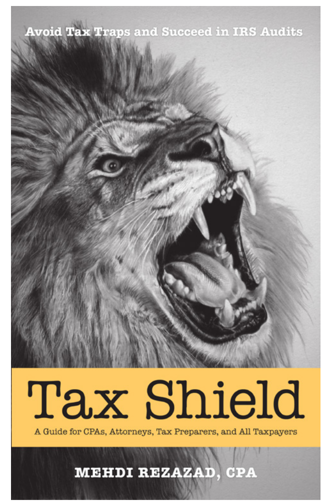
Mehdi Rezazad

> *"Uneasy lies the head that wears a crown."*
>
> William Shakespeare

BOOKS BY MEHDI REZAZAD

http://www.centilion.com/publications/





RESOLUTION FOR SUCCESS

Two Ground Rules Absolutely Vital to Phenomenal Success

Rule No. 1 – Great Success Is a Brilliant Strategy Skillfully Executed. This is the simplest and most straightforward and practical explanation for who succeeds and why. All other elements of success, though important, are secondary. The more brilliant the strategy, the greater the chance of success. And the more skillfully the strategy is put to work, the sooner will the results be achieved.

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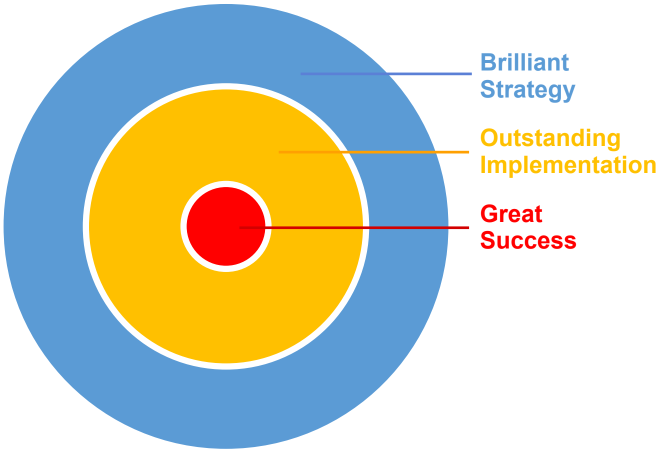
The imperative in this Rule No. 1 applies not just to entrepreneurs but to any endeavor and to all aspirants; it is especially effective in the world of business. To reiterate, Rule No. 1 mandates that you forge a great strategy and implement it superbly.

Rule No. 2 – Never Forget Rule No. 1. Enough said.



Manifesto for Business Success

Three Innovative Approaches to a Winning Strategy

In selecting a great strategy, one must get off the beaten path, approach it creatively and laser focus on what is *really* important. A lot rides on this process and an error in the choice of strategy can mean undesirable results. Conventional thinking will bring about only an average outcome. It is innovative thinking combined with uncommon wisdom that can produce exceptional results.

Here is a sample of inspired thinking to help choose winning strategies leading to extraordinary outcome—deceptively obvious, yet easy to miss.

It Is All about Power. Success breeds power, and business success brings about tremendous power. Money is only incidental to this process. The most precious outcome of commercial success is the ability to govern—to command, to steer, to indulge, and to impart. Money is only a proxy—nothing more than a symbol and a currency to facilitate exchanges.

Making money helps increase your power and expand your base. This is how you get to enhance your ability, authority, influence, command, domination, and supremacy. While success leads to power, fortunately the reverse is also true: power can facilitate business success.

Therefore, your strategy should be as much about enhancing your power base as about accumulating funds. Business success is a continuum and not a destination. At all times, stay alert to the inherent interrelation between power and money, each contributing in its own way to business success.

Protect and Enhance Your Assets. This applies to all assets—material, financial, intellectual, personal, spiritual, family relationships and all else. Your assets are your power base. Guard them carefully, and dispense them even more carefully. Just as profit-making produces power and the ability to govern, expending assets in a frivolous or complacent manner erodes that same power base.

To the extent possible, utilizing assets—especially spending money—should be undertaken as a means to bringing in more assets and making more money. Unbridled consumption is a great enemy of wealth accumulation. To work so hard for your money and throw it away to obtain short bursts of happiness pleases only the short-sighted person and the hopeless romantic.

Savor, Manage, and Cultivate Your Relationships. In general, you need people more than other necessities to succeed in business, be it customers, staff, investors, lenders, partners, or allies. Success is about forming coalitions. Political capital can be as important as financial capital. You have it made when it becomes second nature to elevate everyone around you. Ignore the beaten path and take innovative approaches.

Why call your workers "staff" when in reality they are partners in pursuit of your goals? Holding those around you in high esteem, and letting them know it, is a great technique to benefit you and them. Guard and grow your relationships with the same vigilance as you exercise with your other assets, financial and otherwise.

Four Key Observations in Executing Your Strategy

Selecting a great strategy is only the beginning. From here on, it is all in the execution. Attention now is fully focused on careful planning, mapping, and hard work. Here is a brief list of some of the essential steps needed to achieve your goals:

The Road to Success Is Paved with Knowledge and Skills. Most of the truly accomplished entrepreneurs share an insatiable thirst for knowledge of all kinds. Their intellectual curiosity is among their top resources. Open your mind and seek know-how. Never stop learning. Success requires quick thinking and quicker acting. The only way you can keep in tune with an ever changing environment is to learn.

As no one can be all-knowing, seek advice and practice consultative and collaborative decision making. The purpose of consultation and seeking advice is not necessarily to do what others are recommending. The best decisions are products of vigorous and collective analysis, and debate. A natural result of seeking advice is that one's own thoughts and ideas improve.

No Shortcuts to Paradise. Anyone thinking otherwise would do well peddling snake oil. In the world we live, there is no single process or formula that ensures a long life, happiness, or even survival. Similarly, success in one's business and the ensuing prosperity is a complex process of numerous steps and sacrifices.

Careful planning, wisdom, and acumen, coordination, timing, discipline and other qualities and characteristics are required to deliver the goods and bring about the intended results.

Maintain a Smart Balance between Risk and Reward. Risk is part of everyday life and essential to business and investment. But if you have to risk any of your holdings make sure you take only calculated risks.

- Never expose to risk all your assets and don't jeopardize anything that you cannot afford to lose.
- Do not allow the risks to overtake the expected rewards.
- Never forget the big difference between investing and gambling.
- If parameters are not clear use this model: flipping a coin is taking a risk; the outcomes are equally likely and mutually exclusive.

- Playing cards in a casino against professionals is gambling, with your chance of winning extremely low. For the uninitiated, stock markets possess many of the characteristics of a casino. Untold wealth has been squandered by amateurs in risky segments of the market, all in the name of investment. (But that is a topic for another occasion.)

Earn to Impress Others but Live to Please Yourself. Too many of the most hard-working and aspiring entrepreneurs get this formula in reverse: In pursuing wealth, they aim to satisfy themselves; and when it comes to spending, they do much to impress others. Make money as if you will be judged by others and that their judgment is critical to your survival. This is a vital part of goal setting and progress.

To increase your chances of success dramatically, reverse this strategy when it comes to spending. If you enjoy a luxury, indulge yourself for your own satisfaction and not to impress others. Being the envy of others through monetary consumption is a foolish strategy and shifts the control away from your creative mind to others, who typically cannot tolerate your success. A great majority of overconsumption, and the ensuing and often inevitable meltdown, results from spending hard-earned money to impress others.

CROWDFUNDING AND THE IRS

Crowdfunding has been a phenomenal source for tens of thousands of individuals and businesses lacking funds. It has been a godsend for those acutely in need of money—to finance surgery, rebuild a home after a catastrophe, or other critical needs—who are unable to obtain it through traditional means. Crowdfunding is a simpler concept than crowdsourcing (to obtain ideas, services, and content from the public) and it is catching on like wildfire.

For those not familiar with the crowdfunding concept, an individual or company can raise funds from the general population all over the world, utilizing the power of the Internet. There are facilitators who assist with the process and collect, as a fee, a small percentage of the funds raised, typically 5%. In 2013, the funds raised through the crowdfunding initiative amounted to more than $6 billion. In 2014, the amount exceeded $16 billion and is on track to grow substantially larger for 2015.

The growth is expected to continue, and some companies have been able to raise millions of dollars in a short span of time. Some of the better-known websites through which crowdfunding takes place are GoFundMe, Kickstarter, and Indiegogo.

Types of Crowdfunding

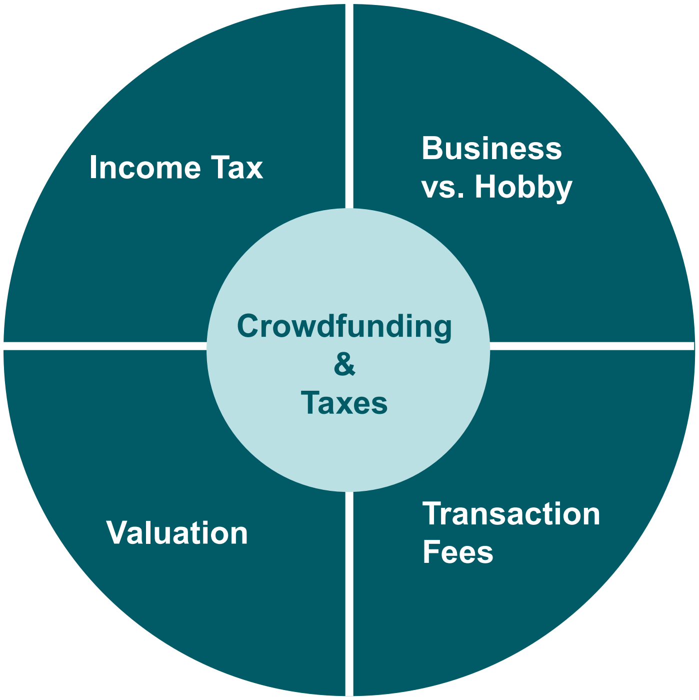
The tax issues and the manner in which they apply depend largely on the method and purpose of the fundraising. Amazingly, the IRS has not issued regulations or guidelines for the tax consequences of crowdfunding, or even addressed the concept.

There are roughly four types of crowdfunding: equity, borrowing, donation, and gift/reward-based funding. The tax issues and consequences do not apply equally to these fundraising methods. Some of the major tax subjects are as follows:

- **Equity Funding:** This is the classic form of crowdfunding where an entrepreneurial startup business raises funds in exchange for ownership stake in the business. This method is not limited to startups. A business or individual at any stage can use crowdfunding to finance the business, including a project, expansion, new products, or any other aspect of the business. In general, the funds raised in exchange for a slice of the business are not a taxable event. The event requires proper planning and care must be taken not to expose an otherwise nontaxable event to undesirable tax consequences.
- **Borrowing:** This is another form of fund raising for the business, except no ownership is granted to the financier and interest is paid as the cost of money used. Similar to any other form of loan, funds received constitute no taxable income and as such are not taxable.
- **Donation:** The funds raised to finance a cause are presumed to be gifts where the donor receives no value for the funds advanced and the transaction is one of charity. The funds raised in these charitable causes are likely to be not taxable. In general, amounts received by the campaigner, where the payer's motive is a "detached and disinterested generosity" (a term coined by the IRS), are considered a gift. If there is no value given in exchange for the funds received, it is likely to escape tax treatment. Therefore, a couple raising funds through crowdfunding to finance the bone-marrow transplant for their toddler is not considered a transaction from which the IRS believes the US Treasury must profit.
- **Gift-Based or Reward-Based Funding:** This is perhaps the most novel form of modern fund raising, where the individual or the business provides a gift to the financier. The gift typically involves the business's product or service and is pledged or provided in exchange for the funding pledge or money received from the benefactor. This form of crowdfunding presents the most variety of tax issues and involves both sides. As the transaction most closely resembles one of buy-sell, it almost certainly is a taxable event.

Primary Tax Issues in Crowdfunding

- **Transaction Fees:** In almost all incidents, the fund-raiser has to pay fees for facilitating the transaction and for processing the payments. These fees range from a small percentage (in the case of the big sites mentioned previously) to a whopping 15% and more in the case of micro-lenders. In ordinary circumstances these fees may meet the qualification for "ordinary and necessary business expense" and as such be considered tax deductible. In the case of new businesses, startups, and where a new branch is being launched, a new product introduced, a business acquisition is being consummated, or similar other cases, these fees might be classified as startup or organization costs. Such costs are not straight write-off for tax purposes, and even their proper accounting treatment requires careful consideration.
- **Business vs. Hobby:** Just because the founder or owner treats the activity as a business, crowdfunding does not necessarily make it a business, unless it meets IRS guidelines. There are a number of factors set by the IRS and if the activity does not meet



these tests, it fails to qualify as a business. The activity is then classified as a hobby, and the restrictive hobby rules apply.

- **Income Tax:** Any time an item of value is included in an exchange in a business setting, the presumption is a sale activity has taken place. In the case of crowdfunding, where a gift of value is part of the deal, there is clearly an income tax issue. The taxability likely applies to both sides, depending on the nature of the exchange and the details involved.
- **Valuation:** In fundraising cases where a gift is provided by either side there is a need to value the product or service provided. Sometimes this valuation is fairly easy and straightforward, such as when the fundraiser receives a common piece of equipment, or a car, or a tractor. Other times the valuation can get complicated, where the investor advancing the funds receives a gift consisting of used equipment, a new product not available in the market, or a host of services offered by the startup. This valuation issue can become much more serious if the items are offered in many—perhaps hundreds of—cases.

Centilion will advise on fundraising, identify business and tax issues, and facilitate crowdfunding.

CRIMINAL INVESTIGATION DIVISION

Has the IRS Criminal Investigation Division (CID) called you? Not yet? Well it might, and when the agent calls, it will be a male, will call you by name, and say something like this: "I am calling from IRS Criminal Investigation Division and you are in a lot of trouble!" He will go on with the scary picture and repeatedly warn you about your dire situation.

The caller will have an unpleasant and threatening tone, and almost invariably have a strong Indian accent. He will never identify himself, or give the year and type of tax he is calling about. You can forget about asking for his badge number because there is none. In short, he is a fake and a member of a large ID theft gang from India using the phone to prey on unsuspecting people and their common fear of the IRS.

So that's the gangland. What is the real world like? The IRS CID never makes cold calls, is prohibited from contacting taxpayers without a tax audit or other previous notice in writing, and can get in a lot of trouble with Congress for over-stepping its authority. The CID cases are often part of a grand jury investigation and follow strict Department of Justice guidelines. On rare occasions when IRS agents call, they produce their name, badge number, the reason for their call, and provide other courtesy-based information before they launch into tax talk. The reason for the call is usually administrative or something fairly innocuous such as correcting an error. And what do you do when the so called "Investigation Division" calls? Just hang up!

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