Matt Bowles: Hey, everybody. It's Matt Bowles. Welcome to the Maverick Show. My guest today is Diane Kennedy. She is a certified public accountant, a real estate investor, location-independent entrepreneur, and the *New York Times* bestselling author and co-author of 14 tax and real estate books. Diane has over 35 years' experience advising some of the nation's wealthiest and most prominent business owners and real estate investors, including *Rich Dad/Poor Dad* author Robert Kiyosaki, and she wrote one of the first books in his Rich Dad Advisor's series.

Diane's mission today is to disclose the moneymaking tax savings and asset protection secrets used by the super-rich and explain them to everyday Americans using real language with actionable steps. She is the co-founder of U.S. Tax Aid Services and the founder of Cash Flow Accounting, both of which are completely virtual companies that she can run from anywhere in the world. She and her husband Richard have travelled to over 40 countries. Diane, welcome to the show.

Diane Kennedy: Hey, it's great to talk to you.

Matt: Well, it's been amazing. You and I, just to contextualize for people, have known each other, I want to say now for 13 years, which is totally amazing. Also, just to give geographical context for this interview today as we're both world travelers, I am actually sitting in West Africa. I am recording this from Accra, Ghana and you are where, on the beach in Mexico?

Diane: I am. I'm in Baja, California, and on the Pacific side there's the Sea of Cortez side, and then I'm over on the Pacific side, and actually looking at the ocean right now. It's kind of foggy today. Yeah, we're at the ocean.

Matt: That's so awesome. Well, I am so excited for this interview, Diane because you are someone who was into the location independence business building concept before it was cool, before it was popular, even before Tim Ferris published *The Four Hour Work Week*, which was the inspiration for so much of the digital nomad movement and the location independent entrepreneurship movement. Even before that, you were doing this.

The other thing that you did that I think is also amazing and that I want to give you credit for is you made accounting cool, which is incredible. I feel like there are all of these stereotypes about accountants and this and CPA's, and when I first got to know you I was literally coming to seminars and would see you introduced and coming up on stage with thousands of people cheering and applauding. You were like a rock star, and I feel like you just actually contributed a huge amount to making the accounting industry cool.

Diane: You know it's so interesting because what I do is primarily tax, and to me it's just a game. Once you know the rules then it's just positioning it to win. I love that. If you just view tax instead of being some scary, horrible thing it's just to understand it so that you win. Truly, if you set yourself up right you can determine when and how much you pay in taxes. Given enough time and following strategies you can do that. What's not to love? I get excited showing people; oh, by the way you can save $20,000.00 this year on your taxes, and maybe we can even do some amendments.

That's what gets me excited is helping people keep more of their money so they can do more for themselves, their families, and their communities or whatever their dreams are.

Matt: I want to start with a little bit of your journey and go way back. Maybe you can just kind of give the background of where you grew up and then what order do you get into these things? Were you first attracted to tax strategy and accounting and did you go in that direction and then later become an entrepreneur, or was entrepreneurship in your blood early on and you just decided to build a business around the tax strategy? Can you give us a little bit of a background in how your trajectory came about?

Diane: Sure. I actually grew up in Oregon and I cannot stand rain, and so as soon as I could I moved to the driest place I could find, which was Reno, Nevada, in the desert. I went to college there, and I wanted to get into accounting simply because it was something with math. In general, I'm good at math and it's like; why not play to your skills? Then, as I was starting to graduate I worked for the local power company and it was interesting. They offered me a job there, and it was a well-paying job. Two of the CPA's that worked there took me aside, two male CPA's, and they said; you know, don't take this job. You need to go to work in public accounting so you can become a CPA.

As a woman – and I'll never forget this; this was back when if you didn't have initials after your name you'll always be the person getting coffee for meetings – and the only way to beat that was that you needed initials after your name. Okay, that made sense, so I went to work for public accounting. At the time, you needed to work in public accounting for two years and pass the test in order to become a CPA. That was the goal, and during that time it was just really easy to see that I gravitated toward tax. I liked the research. I liked the idea of the strategy, and actually at the power company I had worked in the tax department helping them work on their massive tax return.

I'd kind of had a taste of research, and I'd learned from those guys and then went on to get a Master's in taxation from Golden Gate University, so that has always been my focus. After I worked a little bit in the accounting – by the way I'm a horrible employee; I hate being an employee – I want to make my own rules and I want to make my own hours and I want to decide who I'm going to work with. So, I started my own business. I bought a small, little tiny practice and then grew it. It was from that that I actually met Robert Kiyosaki in 1994.

I had quickly focused in on real estate. I liked the idea of becoming an expert in a niche, and so real estate tax was an area where there were a lot of people needing help. There was a great client base, and I just became an expert in real estate tax. He had just recently sold his first business and was investing heavily in real estate and had some kind of complicated situations going on. I met him. I was living then in Reno, Nevada and he was in Phoenix, Arizona. He and his wife Kim would fly up to see me and then go skiing because they liked to do that in the winter. It was a way to learn this, and through that he gave me some advice that was just really invaluable.

Number one was we became friends. I would complain about, without using any names, that; oh, I tell the clients this all the time. I'm always giving the same advice, and I feel like the first half of every meeting is the same information. His comment was, "Whenever you're upset about something, put it in a book. Write a book about it." That's what led to me writing my very first book that was part of the Rich Dad series, *Loopholes of the Rich*. Gosh, that came out in – I've got to think about that – it was in the year 2000, so that was 19 years ago.

Then, from that it just kind of took off. I wrote additional books. I co-authored with other people. I've had books that have been published. Back in the day, you had publishing houses. I've worked with Random House and McGraw-Hall and Warner Books. Most of these have merged into other people. They're not wily books; they're gone or they're under different names. Then, as things changed in the industry I started doing Indie publishing. That is really my passion right now, is Indie publishing because the reality is you do your own marketing anyway, and this was a way for me to again control content when I give it out.

That was really the start of all of this. To become good at something and when things frustrate you, or you have a great story, write it in a book. Right now, I would say to people that if they've got something they're good at start a blog. If you haven't done it already, start a blog because those articles go into books very easily over time. It gives you ideas—as things happen, write about it. By the way, that can be a business right off the bat and then you get a whole bunch of tax deductions.

There you go; that's how virtual has changed how you do business. Back when I started this 19 years ago, I was just starting in virtual with a website and whatnot. It was kind of new, though and not nearly as easy as it is now to do it.

Matt: Maybe we should use that as a jumping-off point to start by talking about your writing because first of all, I found you through that book in the Rich Dad advisory series. I read *Real Estate Loopholes*, which was the Rich Dad advisory book, and then I started finding what other books you'd written and started reading those. Then, I looked you up and I started paying to come to your seminar events so that I could learn from you personally. I eventually hired your company as my accounting company to do my personal taxes as well as my company's. You and I have had a long relationship, but that was my customer journey, if you will to you. You and I are, of course very good friends now, but that was basically my customer journey to you.

I wonder if you can talk a little bit in terms of your writing and the extent to which that has been a marketing avenue for your company and how significant that has been compared to other marketing initiatives that you've done.

Diane: That's a great question. Again, I've got to thank Robert Kiyosaki for helping me with that because gee, I've got these people and now what am I going to do with all of this? He was the one who talked about how you have to have a product or service, something where the idea is to upsell and then from that to develop an email list. Hey, come in here and get a free report, a free recording, or something of value that someone wants. Then, once they do they're on your list and so then when you have special offers and new content—I always call it feeding your list. I do regular emails now to my group, and its new case laws, specific stories on what worked and maybe a story that's a cautionary tale on what didn't work. It selects the people that are interested in that. If people aren't interested in that, they'll opt out and that's fine.

That's not your market anyway, but if you focus on providing content geared to that group you want to eventually sell additional products and services to, then that's how you make money. Honestly, with royalties off of books you probably aren't going to make a fortune unless you have a lot of books.

Kind of an asterisk on that, though is I've started this new project. I ran into a group several months ago on Facebook, and its 20 books for $50,000.00 a year. The premise is that if you write 20 books and you do it in a genre or series if it's fiction, but it's something where each one leads to another one and another sale and then follow their very easy-to-follow guidelines with even cover design, title, and the blurbs you use on Amazon when you put it up there, and how you talk about it; if you follow that with 20 books, basically the minimum is $50,000.00 a year of recurring, sustainable income. So, I stared an experiment. I'm going to try this because I just find that fascinating.

It's something anybody can do because pretty much everybody has got a book or a series in them. It's just a matter of writing it smartly and in line with what they're doing. The other thing, and I'm going to mention Robert Kiyosaki again, is that he's the one who really taught me the importance of having passive income as opposed to just active, earned income. For me, I went through some health issues starting February, 2017, and ended up not being able to work that much in my business. My earned income basically dropped to zero. Thank goodness my husband and I had built up passive income, money that shows up without us having to work, and highly leveraged money where maybe I have some work involved, but I'm getting paid very well for my time or usually if I do something it's got multiple purposes.

I've got other things. I can repackage that information I'm doing. With that research I can do more than one thing with it, and so I've got multiple income streams that happened off of that thing. Those are benefits that I've seen from this. Of course, we know each other from real estate because Richard and I have real estate and passive income with real estate is the best, but you typically need to have some money to put down and you need to have some credit to be able to leverage this.

For some people, especially people starting out, there's a limit to how much of that they can do. I like the idea of building a business and real estate together, jointly. For the business, earned income is great in the beginning where you're doing the work because you're going to be paid more and it's easier to sell your one-on-one services. Build up that passive or leveraged piece in that. Those are the lessons that I took away from all of that, which 35 years later I'm still doing and even more so than I used to do.

Matt: Let me ask you; just in terms of your writing process – because you're not only a really prolific writer, but you are actually a *New York Times* bestselling author – and so, I want to ask you both in terms of your writing process how do you actually write a book? What is your process, start to finish for doing that? Also, as a secondary question, what makes a *New York Times* bestseller? What gets one of your books onto the *New York Times* bestseller list?

Diane: The *New York Times* bestseller list; I'll start with that question first. It's very difficult to do right now because basically, the way they currently count the sales, it's very difficult to do it unless you have a big publishing house representing your book. Now, is that possible? Absolutely. If you're John Grisham you're going to get a *New York Times* bestseller. If you've got a lot of people behind your book you can do that. For a lot of people starting out, though they end up having to put a great deal of money into marketing and P.R. I did this back in the day when I had a big house behind me, which was at the time Warner Books. Today, as an Indie author I doubt that I would do it again.

I mean once you're a *New York Times* bestselling author you can say it forever, so that's great. I have an email list that I sell to, but additionally there are people who find me through podcasts and things like that. Then, there are great offers to come join our group or community where they give free information in exchange for opting into the email list. So, that's the way I grow the business because right now my focus isn't so much getting bestseller status, although it's fairly easy to do on Amazon if you are smart in how you set that up. My last book hit Amazon bestseller status in I think eight categories. It was quite a few and it surprised me. Amazon started adding me to categories because a book had really good sales that first week.

They helped me a lot with getting sales in there because they'll always back a winner. If you come in with a good plan and it's obvious you've got sales they're going to help you. In general, my writing process is I'm very organized. In the writing world there are people that are plotters or they call them pants-ers, where you just write by the seat of your pants. I'm a plotter. I plotter. I plot this whole thing out, so I have a very defined process. I start off with a mind map for a book that I want to write. I mean I've got books going way back. They're online journals and I have my colored pens. There's a whole theory with mind mapping that when you use a color it kind of kicks in that side of your brain that's creative.

I mind-map out the book I want to write, and then from that create the first table of contents, which is basically an outline. Then, I expand on that, and then I write it. I also am using voice-to-text as much as possible, so Dragon; once I start hanging words on that skeleton of the outline I use Dragon because it just really helps my speed. That, by the way is a learned skill. How do you dictate and have it come out coherent without rambling? If you've never done that before it's going to take a little bit to get it, but it's worth the hassle because you will write so much faster if you can do that.

Once I do that, I edit, edit, and edit. I've got a process for getting things edited and checking for grammar, and it's more than just me doing it. I have other people who do it. That gets the book out, and I create a marketing plan around it to launch it, and then it's on to the next book. That's kind of the plan for how I do the writing process. I'm currently in a program – because my life wasn't busy enough – where we've done a challenge to write one million words in 365 days. I'm in a group that's doing that now, and there's lots of accountability around that, which is great and it's helping me because if I can write one million words that's like 20 books, or 20 50,000-word books. That's a lot, and that would be just a year to get that done. We'll see how I do on that.

Matt: Wow. Now, can you talk a little bit about the Indie marketing process, Indie publishing, and then your marketing plans that you do around that? Why do you choose independent publishing as opposed to using a major publisher like you used to? What tips do you have if somebody wanted to go that route for doing a marketing launch of a book?

Diane: The main reason is that with my last few books that were with publishing houses I discovered that they have zero budget for marketing. I mean they don't have anybody to advise you, they don't have anybody doing it, unless you are already a big, big name already and they know it's going to be a blockbuster. It's up to you as the writer to market your own book. In exchange, you literally get cents per book as a royalty whereas if you publish yourself – and Amazon has made that very easy to do – you get to keep a lion's share of the money. Amazon takes something for printing the book and shipping it out, or for selling on Kindle they take a much lower amount if you're doing e-publications.

The idea is that you keep more of the money. Face it; you're doing most of the work anyway. The advantage the print publisher gets you is they have the ties to get you into bookstores, but if you look at the market trends we're seeing that people are buying through Amazon more than they are through bookstores. There are bookstores closing right and left, so personally I think it's kind of a dying strategy to use the big publishers. We're in a bit of a shakeup now in the market. Kind of just in as far as the Indie publishing, this group is just amazing.

I'd say go to Facebook and join the group 20 books to 50K. It has a lot of free advice, and there are tips they give every day. There's a huge welcome to the group when you sign up with lots and lots of links, or you can just buy the book you wrote, which I think on Kindle is like $7.00 or $8.00, and it's well worth the money on how to be a successful Indie writer. People have done it. I mean one lady I know quit her job last fall and has already gotten her million words by June 30, which was amazing. She has written a bunch of books and has gotten literally thousands of five-star reviews and replaced her income and more with no problem. It's very possible. You just have to put the time in, and maybe learn a few things or follow their strategy for marketing.

Matt: Can you talk a little bit now, as well about the entrepreneurial journey from there? You had that big breakthrough and you were able to get that first book into the Robert Kiyosaki Rich Dad advisor series and really get a lot of publicity and a lot of attention through that book. From there, as you continued to build and scale your business can you talk about that process of building and scaling and ultimately taking your business to a location-independent infrastructure?

Diane: Sure. Almost from the beginning I liked spending a great deal of time at home working. I was not a person who needed to go to the office to work. In fact, I prefer the quiet of my home office so I can concentrate and be more creative. So, early on I was working from home quite a bit of the time. Then, the internet just made that all so much easier, where we could just check in.

In 2007, although we were quite virtual by that point, we closed down the bricks-and-mortar and we went completely virtual. Once you're virtual you can work anywhere there's internet. We found CPA's to work with us that would be independent contractors, and I found this niche of CPA's that were all older, that had more experience, and they didn't want to deal with getting dressed up and going downtown to the high-rise. They liked the independence of being wherever they wanted to be. In the last few years we've had CPA's spend six months in China, and one went down through South America and it didn't matter. As long as there was internet and they had their laptop they could keep working.

We've attracted those kinds of CPA's to us because they might not know marketing, but they've got the experience that they can definitely help our clients. I found those guys, we worked out deals, and that's how we built this practice of CPA's that are all virtual. That becomes part of my leveraged income that we have and then I created information products – books and home study courses – and I have a coaching program I do twice a month that's group coaching. That's more affordable for people that don't want to go the route of hiring us as their CPA or paying for a consultation. By the way, those are all recorded and packaged later and sold as information products.

The idea is that everything I'm doing now is primarily geared toward tax and asset protection for the business owner and the real estate investor. That would be my other tip I would give to anybody thinking about doing this, is taking their business and doing it all online. Get niched as much as you can because the better you are as an expert in a particular niche the more that you can kind of dictate how you're going to work. I mean we get people still that will say; hey, I just want to have a CPA who can show up whenever I want, put my feet on their desk, and sit around and talk. Yeah, we're not that person.

The reality is you can't bill for that time, and if we're looking at maximizing our effort and our return that doesn't make any sense. I mean we can go out and have coffee and have a great time chatting, but when I'm working I'm working. This isn't for everybody, but you will find those right people to work with who appreciate your model and who want that for themselves. Once you find that, then you're building up the client base that appreciates your expertise and you appreciate how they work with you.

Matt: It's amazing because a CPA firm would not be something that people would have considered a virtual business in the same way that Maverick Investor Group has a licensed real estate brokerage that helps people buy investment properties. It's not something that people would consider a traditionally virtual business, and so I can remember back when I hired your company to do our taxes and our company taxes. I had been working with you for years and I would say to people; oh yeah, I've never met my CPA, the person from your company who was actually doing our taxes and whom we were working with. I said; yeah, I've never met my CPA in person after years.

It's now been I don't know how many years, and we've still never met in person. I was like; why would I need to meet my CPA in person? It was just such a paradigm shift, but I feel like you were such a pioneer in doing that so many years ago and having the vision. Whatever it is that you do for business, there are ways and paths to create a virtual infrastructure for that so that you and your staff can have the lifestyle freedoms that you want.

Diane: Right. It's interesting because using your company as a bit of an example, if you had a real estate company where you sold homes that people wanted to get the feel for what they're going to live in and things that are important like the color of the wallpaper and the curtains, that doesn't work virtually. What you're selling, though is cash flow and return. The reality is that doesn't matter where it is or what it's doing. Well, it does matter where it is as long as you've got a place that's a rental pool. It's all about the numbers. That's a great example of becoming very niched and then finding the people that want that particular skill set.

That makes sense. I mean you're definitely a company that I frequently people to who are looking for something like; I just want a good return. I don't have time to go find a property. Great. These guys have got people in place providing a return. It's all about the numbers.

Matt: Even some of your staff CPA's have been buying their rental properties through us, which has been an awesome sort of back-and-forth. They do our taxes and they buy their properties through us and it works out well. Let's go into that actually a little bit deeper, Diane. For listeners that aren't fully familiar with all of the tax advantages of buying and holding rental properties, can you talk a little bit about that? Why do you personally invest in real estate and choose to work with real estate investor clients? Maybe you can just explain a little bit about what those tax benefits are.

Diane: If you are a real estate professional under the definitions of the I.R.S. – and we'll talk about that in just a second – but let's say you are. You don't ever have to pay taxes, period. If you do, either; one, you don't own enough real estate; or two, you or more likely your tax advisor isn't familiar with all of the legal tax loopholes you can take with real estate. There were a bunch of caveats in there. One is that you're a real estate professional, and that is a very specific definition that the I.R.S. has. For some people, like let's say a couple; maybe you have one spouse who has a business that's bringing in income, and the other spouse is the one running the real estate.

That often is the ideal situation because in order to be a real estate professional you need to have at least 750 hours a year of real estate activities and more hours than any other trade or business. If you've got a full time job and you're single it's going to be really hard to qualify for that because you're working 40 hours a week and then you'd have to have 41 plus of real estate. Those are long weeks. That's test number one. Test number two – and this can be combined if you're married – is that you have to have what's called material participation. That definition changes based on whether you have a property manager or not, but it basically has to do with how many hours you spend on that particular property.

The third one is that each property has to qualify individually unless you make an election to aggregate those. That's just something that your tax advisor can help you decide whether it makes sense to do that or not. If you do those things, then you can take an unlimited tax loss against your other income. Now, the benefit of that is—I mean somebody listening to this is going to be like, "I'm not going to buy real estate to lose money. That would be stupid." Exactly, but we're not talking about direct expenses. Direct expenses are those directly involved with that particular property, so it would be the mortgage interest, the property tax, the utilities if you've got those, and repairs. What is it involved with that property? That's a direct expense.

You'll always take those deductions and hopefully at the end of it you've still got income because that reflects how much your cash flow is. The next one is indirect expenses. Those are expenses that have to do with being in the business of owning real estate. For example, let's say you have 10 properties and you buy a computer and you have a home office. You have an internet service provider. You have a cell phone. It's all of the things that go into being a smart manager of your property. Well, those are indirect expenses. They're not directly related to any property, but they're still important and they're still deductible. Those indirect expenses always take those deductions.

Now, at that point you may not be having any income left. It depends on how big those other expenses are. The secret to that often is that if you've got expenses that you're already paying money for, personal expenses, you're looking for that way of; how can I legally, legitimately make this a deduction for my real estate? The third one, though, this is the real benefit that real estate has. It's something I call a phantom expense. That's depreciation. Now, depreciation you can stop, you can start, you can catch up, and you can suspend by taking one property and not the other. In other words, you can get very strategic with phantom expenses.

In this case, what we would do if you're a real estate professional is we want to maximize all of your phantom expenses, so we create a tax loss. That tax loss can go to offset your other income regardless of the source as long as you're a real estate professional. That's the secret. That's how this is working, where it's like; gee, I don't have enough write-off. Well then, go and buy some more real estate. By the way, you're going to make more money because you're going to buy smart. So, you've got more cash flow and that creates more depreciation, and you can use it to offset your other income. That's in a nutshell why this makes so much sense.

With real estate, you've got cash flow, again if you've bought properly. You've got the potential for appreciation, maybe active appreciation where you've done something to improve the value of the property, or passive, where the values are going up and so you get to take part in that. Third, there are those tax benefits that you only get with real estate. That can be a great strategy for anyone who's got real estate and other income that they want to shelter.

Matt: Now, if somebody cannot qualify as a real estate professional like you said – they're single and working 40 hours a week and all that kind of stuff – which of those real estate tax benefits can they still take part in?

Diane: The biggest thing is then in their case that if their income is over $150,000.00 a year, adjusted gross income, they're not going to get any of the real estate losses we might create. What I would do is look for getting that income, that taxable income from the real estate, to zero. There's no sense in creating an extra loss that then becomes a suspended loss. You don't lose it; it carries forward, but it's kind of tricky because what it ends up doing is you have to recapture depreciation when you sell and that means you pay less in capital gains tax and more in depreciation recapture, which is a higher tax rate.

The key here is you just want to get to zero. Now, the benefit of that is you've got something that's giving you cash flow and you don't pay tax on it, plus there's the possibility of appreciation. If you've got appreciation you can always refinance and pull some cash out. Those become strategies for using this asset to create more cash for more investments without having to sell it. Contrast that with buying a stock. You might get dividends, which are fully taxable and then in order to get that cash flow you've got to sell the stock. You don't have to sell the house to free up cash. That, still I think is a great strategy for people with real estate. Who knows? Down the line you might retire, and then you take advantage of all of these other tax benefits with real estate.

Matt: Just to be clear for folks if this is their first exposure to some of these tax benefits, even if they can't qualify as a real estate professional and they make over $150,000.00 a year they can still take the depreciation phantom loss and use that against what would otherwise be taxable income from that piece of real estate, right?

Diane: Correct.

Matt: If their cash flow that they're getting into their pocket every month, the net positive cash flow that comes into their pocket every month that would otherwise be taxable, then even if they're not a real estate professional and no matter how much money they make they can still depreciate the property, take the phantom loss, even if the property has gone up in value, and then use that as a write-off so they don't have to pay tax on their positive returns from the property, right?

Diane: Correct. Just kind of as a little asterisk; it doesn't have to be just that property. I have clients sometimes that bought property years ago and it's basically free and clear. At that point, when you don't have the mortgage interest it sometimes can be hard to get that property down to zero. If they have another property they bought more recently that has more depreciation and that has more expense and it creates a loss, they can use the loss on that property against another real estate passive income. You can put all of your properties together and that's fine. You can offset then. It's just that that loss can't offset your earned income or your interest dividends. It still works though to offset passive income.

Matt: Right. Just to give folks sort of an example, you're allowed to depreciate your residential investment property over 27 ½ years, so just for an easy number let's say if you had a property that was worth $350,000.00 you're not allowed to depreciate the land, so you have to break that out, but if your structure was worth $275,000.00 you can depreciate that over 27 ½ years, so it's a $10,000.00 loss per year on paper even if it's going up in value. You can then take that against $10,000.00 of real estate gains. Is that right?

Diane: Correct. Now, you can actually even accelerate your depreciation, which we now are talking advanced strategies, by doing something called a cost segregation study. What that does is it breaks out the personal property elements of your property. Let's say you have a single-family home, and in that there are certain personal property elements, for example the HVAC system, the floor covering, refrigerator, and garbage disposal.

There are a number of things like that. Those don't have to be depreciated over 27 ½ years. They can be depreciated over five, seven, and in some cases fifteen years. By doing this study you break out from that $275,000.00 for example how much value there is to these separate items and then you can accelerate your depreciation because the life is shorter on those particular ones. Again, that's an advanced strategy, so make sure you're working with somebody who understands how to take advantage of those tax rate changes.

Matt: Right, and if somebody does make less than $150,000.00 a year at their regular job, then if they have additional overflow depreciation after they write off all their real estate gains, then they can apply some of that to offset of their earned income if it's under $150,000.00. Is that right?

Diane: Correct. Well, it's actually that under $100,000.00 you can take a deduction for up to $25,000.00 of real estate losses like that, and then between $100,000.00 and $150,000.00 the amount you can take phases out. So, when you reach that $150,000.00 you can't take anything. Yes, you'll get something, but until you know exactly where your income is going to be you won't know exactly how much it is.

Matt: Now, you mentioned depreciation recapture when you sell, but there's also a provision called the 1031 exchange. Can you explain what that is and how that works?

Diane: Yes, that's another great thing. The 1031 exchange, I mean the best way I can say it is that it's like in Monopoly when you have four green houses and you changed it for one red hotel. That's a 1031 exchange. You did that and nobody paid taxes. By the way, that's real life. If you have a property and you sell it and there's a bunch of gain and you don't want to pay tax right now, you can buy another property within certain specifications and roll your gain into that next property. It doesn't mean that you'll never pay tax on it, but you've delayed the time for when you have to pay it.

Now, it's possible that you'll just keep rolling forever until your heirs inherit it and then they inherit it at a higher value and nobody ever pays taxes. Set up correctly, you might be able to defer that tax forever for your family. Some of the rules, though are that you absolutely need to plan this one in advance because if the money touches your hand – for example, let's say you sell and you've got the money and you get the escrow check and then you say; you know what, I think I'll buy another property and do a 1031 – too late, it's touched your hands. It needs to stay within an accommodator, a third party who's going to hold that money and they then buy the next property in your name.

You have 45 days to identify what possible property it might be, and 180 days to actually close on that next property. The property needs to be for at least the sales amount of the property you just sold. It can be more, but if it's less you're going to have some amount that's going to be taxable on that.

Matt: I love, Diane, how you have what you talked about in terms of creating a niche and creating an ideal client avatar. You have really specialized in trying to work with professional real estate investor clients, entrepreneurs, and business owners. Can you talk a little bit about how and why you demarcated that niche and then built your business around that?

Diane: Well, I personally do both of those things, and I think there's a certain amount of; hey, I want to learn all I can because it helps me, too. That's basically building businesses, and with the advent of online I especially like working with online folks because with an online business owner we could start a business today and immediately get deductions and start taking advantage of that. It's the fastest way I know to get a business going, and the whole key to having a business is getting it going. It has more flexibility. The challenge with W2 wage earners where they don't have that business or real estate is that there's not a lot of strategy.

Every time we get these tax law changes the idea was that with the Trump tax plan, the 2017 Tax Cuts and Job Act, was only for the rich. The irony is it's not only for the rich. It's only for business owners and real estate investors. It just happens to be that business owners and real estate investors are more likely to be rich, so I find that just fascinating as far as; okay, then you're working with people that are upwardly mobile, who are interested in improving their own personal life, and the life of their family, and often they are people who are very driven by social causes, which is important to me as well. It's a fun group to work with. It's inspiring to me. I learn from my clients all the time. That's why I picked that, and it's turned out to be something great.

Personally, I'm just waiting to see what happens to some of these franchise tax preparers because it's become so easy to do a tax return if you're just a W2 wage earner. That's because there are very few deductions left. There's the old joke of; how much do you make? Send it in. It's like; well, guess what? That's your one-page tax return now. It just doesn't have a lot that's deductible. People could do it themselves, and so there isn't a market for that group anymore. You need to specialize into something where people are going to value your expertise. That, to me is my belief in businesses.

Matt: I really like what you do and what your focus is, Diane, in terms of helping regular people take advantage of very complicated tax laws that people think that the wealthy have always taken advantage of, but also regular people can take advantage of them too if they understand it. We've just talked through a lot of the real estate stuff, which is applicable to anyone that buys real estate, and that's a very accessible thing to do, right?

Most of the turnkey rental properties through Maverick Investor Group still today, in 2019, are $100,000.00 to $150,000.00 in the markets that we're dealing with. We're not in San Francisco and Manhattan, and so if you qualify for a mortgage and you're only putting 20 percent down, $20,000.00 to $30,000.00 is all you need to buy and hold a rental property for the long term. That's a very accessible price point for a lot of people. Now, they're a real estate investor. Now, they get to start to take these other tax benefits. I like the way that you're doing something similar in terms of entrepreneurship and in terms of starting businesses.

A lot of people, even if they are still working at their job, just like they can buy real estate as an investment they can also start a business. They can start that side hustle and then try to maybe grow that into a full time thing if they want, but can you talk a little bit about the tax benefits available as soon as someone starts a business? What can they do now?

Diane: Well, I've got a story on that. It was a person who was very involved in his own business. I was giving a seminar on where you spend the most of your money, your personal expenses. He jumped right up and said, "Shoes. My wife buys shoes. When we go on a trip she has a suitcase just for her shoes. She buys lots and lots of shoes." It was funny, and he got a laugh but that was true.

Because I knew he knew a little bit about programming and he knew Word Press and he knew how to put up a blog, I challenged him. Okay, she is an absolute expert on shoe fashion, so let's give her a blog on shoes. She could take pictures of what shoes she's bought and what she would wear with it and how much it cost and then provide a link for somebody to buy it. Then, she gets an affiliate referral income. By the way, that shoe is now a tax deduction because overnight he was able to throw up a Word Press blog and she began blogging about shoes and got a following from it. I mean my goodness, if you watch people on YouTube like the makeup people that will get hundreds of thousands of viewers that are making a lot of money; this is a business.

If it's something you really like and you care about, then why not blog about it or do a YouTube video, and then you'll get a following and make money off of the advertisements and an affiliate income and you've got a write-off. The cool thing is that you've got a write-off immediately. Even if you put up your links and nobody buys for the first couple of months because they're just discovering you, you still get the write-off. In a business you don't have those same limitations on losses going against other income. Generally, at some point you need to show a profit motive and actually show a profit, but for several years at least you can run losses in that business taking those write-offs for the things that you already are spending money on. That's one of the biggest benefits they've got for doing that.

Another big one – and we talked about this for a little bit before we got started – was about the idea of working and living in a foreign country. The easiest way I know to do that is with an online business, and then once you do you've got some great opportunity for legally not paying any U.S. taxes, and that's through the foreign earned income exclusion. Those become ways to make money because it doesn't have what we call nexus, which is a connection to a geographic area. Without nexus you end up paying little to no taxes.

Matt: Can you talk a little bit more about that? There are definitely a lot of location-independent entrepreneurs and digital nomads or aspiring digital nomads that either live outside the U.S. or are itinerant and traveling around the world and so forth. Can you talk about what the benefits are for the foreign earned income exclusion and what does it take to qualify for those?

Diane: The benefit is that, and gosh I didn't look this up before; I believe its $109,000.00 now of income that can be excluded. You can make $109,000.00 and you won't pay any U.S. tax on it. It's a foreign earned income, so that's probably the first distinction we've got to make there. It's got to be money that you actually make. If it's money you're making from your rentals, well we've already talked about those strategies and we've got that covered, but even if you had income it can't be covered. This is earned income money you're making, so with that basically if you qualify then you're not going to pay tax on that amount.

There are a couple of other things. Besides being earned income, the other is that you need to have either physical presence or bona fide residence outside the U.S. Physical presence means that you are gone for 335 days out of 365 days. By the way, that doesn't have to be from January 1 to December 31. It's just 365 consecutive days, so in other words you're only in the U.S. for 30 days out of that time period. That's physical presence. It's a very objective test because you just have a diary and you can show where you've been.

The other one, the bona fide residence, is a little more subjective. In that particular case, you're looking to see; do you have a closer tie to another country than you do the U.S.? Now, we still have a U.S. address. We still have U.S. property, but we have a closer tie to Baja, California. We own property here, and we actually have some rentals and other things here as well, but this is where we spend most of our time. We have our car licensed here. We have permanent residence and visas here, and so we're legally in the country. There's a big deal for that, too, but that gives us our bona fide residence, and with that we could be back in the U.S. for up to 120 days although I recommend not pushing that number. Maybe stay below 100, but still you could be in the U.S. for a lot longer.

I'm just going to say a little asterisk here. You do need to be careful with that because the U.S. isn't always the most expensive country to have residence in. I've seen people kind of jump from the fire to the frying pan or however that goes, but the fact is that they say; okay, I'm in this country. Yay, I don't have to pay U.S. taxes. Yes, but you're in a country that has a higher tax, so just be careful when you start that strategy that you're not going to create an additional problem. To do that, you need to understand the tax laws of the country that you're in. Sometimes you can handle that just by having a foreign company outside, like an offshore company set up.

So, there are different strategies. You just need to really know what you're working with. That's the first part of this. When you qualify and you get that $109,000.00 that's going to be excluded, the second part of that is to also get a housing allowance. That means that it's actually just a deduction right off the top, so if you make more than $109,000.00 – let's say you make $120,000.00 – you have still got some extra income you're going to be taxed on, but your exclusion might just be able to knock that back down. The amount of your exclusion is a formula, and the formula is based on how much earned income you have and what country you're living in and what area you're living in.

Based on those two amounts, it will tell you how much it is. I'm going to say that with the people that I've seen use this it's not uncommon to be able to take a deduction for maybe about $15,000.00 per year. That's just kind of a rough number based on that formula of what that is. You could see where it gets to the point where; gee, we're almost to the point where we're not going to pay tax at all. If your other income all happens to be real estate, well, great for sheltering it through the first strategy and if the second is earned, then you just shelter it through the second strategy.

Again, it depends on the country you're in. Just be careful with that, and then you need to make sure that it's earned income and that you have either physical presence or you're a bona fide resident.

Matt: Now, if you're not actually generating the income from the country you're residing in, you're just let's say generating it in the U.S., like let's say you have a U.S.-based LLC in Nevada or Wyoming or something, and you're generating income into your U.S.-based LLC, but you personally are just travelling around the world. Then, your tax obligation would be that if you're able to make, let's say $109,000.00 into your U.S. LLC, but you're physically residing outside of the U.S., then you would have no tax obligation anywhere on the $109,000.00? Is that how it works?

Diane: Well, it depends on—now we have to look at that concept of nexus, which means connection. If I own a company that's bricks and mortar, for example; people come into my store and buy things. That clearly has a nexus inside the U.S. and whatever state you're in, too. You've got state income tax most likely as well. That is not going to be excludable. If you have something where people are buying and selling that's absolutely tied to the U.S., then you've got U.S. nexus and you're not going to be able to avoid it.

In the case of the work I do, which is that I'm writing books, I'm selling books, I'm giving advice, we're preparing tax returns; I do all of that virtually, so I don't have that U.S. basis. Even though I have U.S.-based clients, the work is done on my computer wherever I am, so that then is a way to not have that nexus. It depends on the particular circumstances of how you're making that income.

Matt: Right, so to consult you're a CPA, but the concept and the potential of the tax benefit is that if you set it up and you structure it right and you have a qualified business situation and all that, then you could make up to $109,000.00 and not have to pay tax on it in the U.S. or anywhere else if you qualify for that benefit?

Diane: Correct.

Matt: Awesome. Diane, I also want to talk to you a little bit about your travels and your travel experience. Let me just start off by asking you a very general question about what does travel mean to you? What do you get out of it? Why do you travel internationally?

Diane: You know it's interesting. I love history. I love seeing other people, and for me I never was one who liked going on the tours; okay, we're going to see 10 cities in five days, and that kind of thing. I like being able to go someplace and stay a while. You get to know other people and I just love that experience of different food, different customs, and different people and making friends the world around. When I met my husband, he'd had a career in microelectronics and did a lot of work in Southeast Asia, so he was extremely familiar with the world that I wasn't, and so it was exciting for us to go to these places.

Matt: That's awesome. I want to also ask you a couple of questions about your personal productivity habits. You are one of the most productive people I know in terms of your output, both in terms of entrepreneurship and in terms of writing books and all that kind of stuff. Can you talk a little bit about whether you have any morning routines? How do you structure your day? What tips or habits do you practice to be as productive as you are?

Diane: I'm a big one on writing stuff down and what do I need to do. I have a line journal that I keep, and the right side of it is what I want to get done that day and the left-hand side are notes that I make throughout the day, and I keep those forever. I've got stacks of these journals. It becomes really good reference for me and part of that is I talk to people and I talk to clients and I'll make a note and I want to make sure it gets in their file and I don't have time to do it at the moment, but it's written down.

The other is that on the right-hand side I'm earmarking what this day is and what I want to get done that day. That's helpful. Often, my list is way too long on Monday and by Friday it's like; ah, I can just take the day off. It's just kind of how that works.

Matt: Do you have any morning routines or any rituals that you do every single day that are consistent or that keep you grounded and keep you focused or things of that nature?

Diane: It's interesting. Because I went through this health stuff, I do yoga almost every day, and I usually do that early afternoon because for me, I'm a morning person. I drink my coffee, get some water, a sports bottle full of water, and then I'll sit down and go to work. That's my best time, and then I take a break later and I always make sure I have that time for yoga to stretch and kind of keep myself healthy. Also, if you've been sitting for a while you need to have that moving around period. I'm more like where I get to work in the morning and then do the rest of it, and then at night I don't really watch TV. My husband and I read or listen to music, and so that's how we keep up on all the things. We talk about trends and what's going on and that type of thing.

Matt: I also want to ask you about stress management in general and also how you deal with business problems and setbacks when they occur. There's this concept of the entrepreneurial roller coaster that pretty much every business owner is intimately familiar with, and so I was wondering if you could just talk or share any setbacks that you've had along your journey and then how you approach and deal with a business problem and how you also personally manage stress when you're in high-stress situations.

Diane: It's interesting. There are the challenges. I mean in 2008 and 2009 we were heavily invested in real estate, and of course that hit us like a lot of people. I've had a couple of business partnerships that didn't work out that were painful, and it became a case of; okay, this is where we are. What do we need to do? My approach is always to be very strategic.

Just the whole concept of emotional intelligence to me is managing that emotional reaction to things. I find that the more emotional you become, the emotion goes up and intelligence goes down. Your ability to think through problems isn't there when you get emotional, so for me, it's; okay, I'm not going to say I don't have these feelings, but I'm not going to deal with those now. Right now is; where am I now, where do I want to be, and what am I going to do? At times where it's been hard it was almost kind of a mantra I had. Well, it's not getting worse. We're discovering more things that are wrong and that we need to fix, and we move forward. If something bad happened, it was that was then, this is now.

I think it helps having those kinds of mantras around you, but for me I've always been this person who's very good in a crisis. I can be like; okay, I'm going to put that aside and worry about all those feelings later. What do I need to do now? I don't know what that is other than it's just a skill I developed over time.

Matt: I'm also curious, Diane to know a little bit about your management style, your leadership style, and how you would characterize that in terms of leading the teams that you've built and put together over the years.

Diane: Frankly, I suck at it. I have my husband do that, but what we do is with our CPA's is that I love the technical stuff. I'm kind of famous for saying, and I don't say this too often but I will now, "If everybody would just do their job I wouldn't have to manage anybody," so that's probably not the best thing to tell your team. That's why my husband does this. I like the detail and the strategies, so we have regular calls and we talk through client questions. Hey, here's a new strategy and here's how we can use it. This is when it works and this is when it doesn't. These things came up with a particular client. What do you recommend?

We do group calls because we all learn from each other on them. That's very popular with the CPA's. They like that ability because we're all working basically from home, and sometimes in isolation we don't have other people that are professionals to talk about these things, so this is a way for us to have that sounding board amongst each other.

Matt: I'm also curious, Diane if you can share this about working together and doing business partnerships with your spouse. I feel like there are a lot of people that are averse to "doing business with friends and family," or things like that, but also particularly with a spouse when you live together and you spend your free time together and that kind of stuff and then also doing business together; can you share a little bit about how you and Richard have made that work?

Diane: Yes. It's interesting. We have a saying, and it's, "On a one to ten, how important is this to you?" The idea is that just generally there are times when he really wants something and I don't care. If it's an eight for him and a two for me, then we'll just do it your way because it doesn't matter. The other thing in business is that early on I remember having lunch with someone who had been kind of a grizzled business owner and had been through it all, and he said that some the best advice he had gotten with his business was that somebody had told him to make sure whenever you have a meeting that the business has a seat at the table. We actually say that now. My son will say it. We say it frequently. What would the business say?

Maybe we're not agreeing on some path or some decision, and then it's like; stop, what would the business say about this? It's interesting because if you can get yourself out of your own head and whatever is kind of running you emotionally about this and just think about what the business would say, I don't know that we would ever disagree on what the business would say. If it's a business decision it's kind of like; okay, well the business just spoke and it's a business decision, unless you're really personally averse to something because you have some ethical considerations or something, which I think the business would as well.

The idea is that you take a moment and then look at this objectively from the eyes of your business. That helps a lot. We don't share space. We have offices on opposite sides of the house. I mean I can't hear him. We're quite a ways away from each other. That's also a secret because he's kind of a messy person in his office. I'm not, and it would drive me insane. You find ways to work with each other.

Matt: I'm also curious parenting techniques and the extent to bring kids into the business or not and the extent to which you do financial entrepreneurial education as well as just your general approach to parenting and raising an amazing kid. I'd love to have your take on that.

Diane: Well, we met David. Richard and I were volunteering at orphanages in Juarez, Mexico, which is just down across the border from El Paso, Texas. It was at a time that Juarez was the most dangerous city in the world, and the orphanages were just overrun with kids. Their parents had been killed or whatever had happened. There were lots and lots of kids, and at one of the orphanages we met David. We started the adoption process. It took about six months, and we adopted him. He was then 14 years old, so the first thing I would say is; oh my gosh. Holy schnike, he's adopting a teenager. That was an experience.

Early on he needed to be home schooled. He needed certain things because he was very, very bright but not up to going to regular classes in the U.S. There were a lot of things we had to do differently in the beginning. We just found his niches for him and what he excelled at, and then it was a case of; okay, we're going to get through this and we brought him into the business right away. Now, he has his own business now. He has food trucks, and he just I think has opened a restaurant or is about to. I don't know if he's done a soft opening yet or not, but he went on to study culinary arts. He loves to cook, and so he has these food trucks.

He's completely away from the whole accounting realm and whatnot, but it's interesting because he attributes a lot to working with us in the business because he'll also say, "What does the business say?" This is a common thing we say in our household. He says that about his business, too when he's got a decision to make. What does the business say?

He learned a lot of the habits although I certainly didn't teach him to cook. I mean I like to cook, but he's way, way, way better than me. You find your skills and then you can kind of plug them into basic businesses and that's what he's doing.

Matt: That's awesome. That's amazing advice. Diane, at this point are you ready for the lightning round?

Diane: You bet.

Matt: Let's do it. All right, what is one book that has really influenced you over the years that you would recommend to people?

Diane: Now, this is going to be surprising I think to people, but I loved *The Worldly Philosophers*. It has to do with economics, like social economics and the impact on society. The new version has Chapter 11, and that is mind-blowing because it talks about how economic theory has changed and what that means for the future of societies. I find that fascinating because this is what we all work against is this economic – because I'm in the financial realm – and this is what we're dealing with. This is the playing ground for us now.

Matt: What is one app or productivity tool that you're currently using that you would recommend?

Diane: As a CPA I wish everyone would get a scanner app on their mobile phone. The reason is because you frequently run into things where you need to have a copy or you sign a document and then you're either running around trying to find somebody to scan it for you – especially if you're mobile and you don't have an office with a scanner – so you do that, and what happens invariably is people take a picture with their phone and the quality is never good. You can download scanner apps on your phone, and then you scan it and it looks exactly like a scanned copy. The quality is the same. Definitely get one of those.

Matt: What is one podcast that you listen to or blog that you read or YouTube channel that you consume regularly? What is some type of content medium that you would recommend to people?

Diane: It's interesting. The things I'm reading now are very specific to what I want to know. I mean I've had these health considerations, so there's a health one I follow all the time. The writing one, if anybody is interested in that, I strongly recommend you join the Facebook group 20 Books to 50K. That's something that I'm always getting marketing tips on books, and even if you don't jump into this challenge it's got great ideas for even cover design and the font you use and how that can affect your sales.

Matt: All right, if you could have dinner with anybody that's currently living today whom you've never met – it could be a celebrity, an author, a business owner, a public figure, a rock star or whomever – who would you choose and why?

Diane: Neil Gaiman; I'm just fascinated with what he's been able to create. He's the one who wrote *American Gods*. He wrote *Lucifer*. He wrote … what was the other one … *Good Omens*. The reason I mentioned those three is they've all been turned into series, and he's directing them and the series are, if anything, better than the books. I'm just fascinated with how on earth he's able to do all he's doing and where do all these crazy ideas come from? I'm just fascinated with the guy. Every interview I see with him it's like; gee, I'd love to talk to him.

Matt: That's a really good pick. All right, the last two lightning round questions are about travel. The first one is what are your top three favorite travel destinations you've ever been to that you most recommend that people check out?

Diane: If you haven't been to Norway go to Norway. That was such a surprise. I went there for work, and then we extended it into a longer vacation just to see Norway. Oslo, if you don't know anything about Oslo, it's wonderful; but if you go further north, up into the country, oh there are wonderful, wonderful people. I mean it's clean and it's safe. It's expensive, so be aware of that, but I loved Norway, so that's number one.

Let's see—I live in a place I love, Baja, California. Just get in a car and drive from Tijuana to Cabos at the end. Its 1,000 kilometers, and it's just amazing. You go through desert on both sides, the east and the west, and it's just a wonderful, wonderful drive.

Third I'm going to pick – boy, this is hard – you know it's crazy, but I'm going to say Taipei, Taiwan just because the food was so good. I've had some really interesting dish—oh, I've got another one. It's the fourth one; the upper Hunter Valley in Australia. We had great fun there. It's the wine country in Australia, so there you go. There are four.

Matt: A bonus one—I love it. Last question; what are your top three bucket list destinations, places that you've never been that are the highest on your list right now?

Diane: You know I've got a little bit of mobility issues, so I'm kind of tempering what's possible, but I've never been to Ireland. I'm Kennedy and my husband is Cooley. We need to go to Ireland because our last names are Irish. Neither of us has been, and so that's on there. I would really like to go to Singapore. I've just known a lot of people who absolutely love it. The food is phenomenal and it just seems like such a great destination. The third is just to explore more of Mexico. I'll say primarily the area where the Monarch butterflies come to migrate; I mean they get over 100 million butterflies in this small region. I just couldn't imagine what that's like to see.

Matt: Awesome. All right, Diane; this has been really amazing to have you on the show. I want you to let folks know how they can get ahold of you, how they can read your stuff, how they can learn more about you as a tax aide, how they can follow you on social media, and all of that kind of stuff. Where should people go?

Diane: The easiest one is to go to the website USTaxAid.com. I have blogs that post there on the latest in tax strategies and what's going on. You can sign up to get information and alerts on those. I have a Facebook group, Diane Kennedy's U.S. Tax Group, where I frequently get questions and we have conversations about different things. We did a couple of fun things where we watched a video together and then we all had a conversation about it. It was something that was financial, and so there have been some fun things that have happened in that. My twitter is Diane Kennedy CPA, and I think those are the primary ones right there.

Matt: We're going to link all of that up in one place at the show notes, so you can just go to TheMaverickShow.com and go to the show notes for this episode, and everything that we talked about, all of the stuff Diane recommended, and all of her contact information will be right there in one place. Diane, thank you so much for being on the show. This was awesome.

Diane: Thank you. I really enjoyed it.

Matt: All right. Good night, everybody.

Announcer: Be sure to visit the show notes page at TheMaverickShow.com with direct links to all the books, people, and resources mentioned in this episode. You'll find all that and much more at TheMaverickShow.com.

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