How Ordinary Americans Can Also Buy, Borrow, And Die Without Paying Taxes

Robert Farrington Sep 13, 2021,

It's commonly said that earning your first million dollars is the hardest, and that building wealth from that point forward becomes a lot easier. This is definitely true. After all, having seven figures of invested assets or net worth makes it easier to earn money through compounding, or to borrow so you can earn even more money in other ways.

If you inherited your millions, then that first stepping stone of wealth was handed to you on a silver platter. Either way, wealthy Americans already know all of this, and they frequently plan their estates so their heirs will have a huge leg up in life.

In the meantime, the wealthy have also become masters at buying, borrowing and dying while paying minimal taxes or no taxes at all.

A report from ProPublica showed that Jeff Bezos — also known as the richest man in the world — didn't pay income taxes from 2016 to 2018. A feature in Newsweek also reported that Warren Buffet's wealth grew by $24.3 billion between 2014 and 2018 yet he only paid $23.7

million in taxes during that time.

This is actually rather common among the rich and super-rich who have tax advisors and accountants to help them plan. But, how do they do it? And can you do it as well?

Here are some of the strategies the wealthy use to "kick the can" on their tax bill until years or decades down the road — or to avoid taxes altogether. And surprisingly, many of these options are open to “ordinary” Americans as well - it’s just not talking about or taught.

Blue Origin founder Jeff Bezos speaks after receiving the 2019 International Astronautical ... [+]

AFP via Getty Images

Borrowing Against Assets

According to financial advisor Matthew S. Miller of Upleft Financial, the wealthy go out of their way to avoid selling investments with large embedded capital gains. If such assets were sold, they would "realize" the gain and trigger a taxable event, which they strive to avoid since this would mean either having to pay a long-term capital gains tax rate or an ordinary income tax rate on the amount of the realized gain.

Rather than sell their highly appreciated position, an investor can instead borrow against it, says Miller. The advisor says the wealthy frequently do exactly that using a financial tool known as a securities backed line of credit, or SBLOC. This is a lending product that allows someone to access some portion of the cash value (usually 50-100%) of their investments by using them as a form of collateral on the loan.

This entire strategy lets the wealthy access cash while leaving their investments to grow. Plus, low interest rates have made borrowing very affordable.

"Interest rates on these products are often very low compared to other forms of credit and the rates can decrease steeply for larger loan amounts," says Miller. "The cost of this borrowing can be much much less expensive over time than the costs of the taxation on a sale of assets."

Forbes Money 00:10 01:12

ket Starts	End (Ultimate Low)	Days to Lows	% Change to Lows from Highs	# Fail
'3	10/4/1974	631	-50%	
'6	3/1/1978	525	-21%	
80	8/9/1982	621	-29%	
7	10/20/1987	56	-36%	
0	10/10/2002	930	-51%	
07	3/6/2009	512	-58%	
0	3/23/2020	33	-35%	
	Average	473	-40%	
	Median	525	-36%	
	10/13/2022	282	-28%	

6 excluding 1987/2020
as had 5 failures in 2022

[A Technical Look AheadTo 2023]

Further, the benefit is even greater when one takes opportunity costs into consideration.

So, how can you do it? Well, many brokerage accounts now offer this. M1 Finance offers [M1 Borrow], which allows you to tap into your investments at as little as 2%.

If you have crypto assets, Celsius offers an innovative lending product where you can get a loan against your crypto collateral. In fact, for California residents, you can currently borrow at 0% APR. Yes, it's promotional - but that's amazing.

The goal is to not sell your assets (and pay taxes). These products allow you to access your investments while avoiding the tax burden that comes from selling appreciated assets.

Real Estate Investments

Dr. John A. Kilpatrick, Ph.D., MAI of Greenfield Advisors says there's a reason most millionaires and billionaires seem to invest in real estate. In fact, it's estimated that 90% of millionaires own real estate.

Kilpatrick says there are plenty of ways to use trusts and other mechanisms to curate the real estate portfolio and optimize the estate tax burden. Not only that, but real estate is preferred as collateral for loans. As a result, wealthy individuals with investment opportunities can use existing real estate as collateral for low-interest-rate, long-term loans.

The terms and conditions of these loans are usually superior to loans collateralized by securities, says Kilpatrick. Further, taking money out of real estate in this fashion is not only a non-taxable event, but in most circumstances the interest expenses can off-set income from the real estate, even for passive tax payers, providing an additional tax advantage.

So, how can you do this? The most common way is to access your home equity via a HELOC or cash-out refinance. However, new products like Point allow you to actually sell the equity in your home, which can have further benefits over taking on more debt - the biggest being no monthly debt service payments.

Estate Planning

Financial advisor Jenna Lofton, who writes about investing at StockHitter.com, says many wealthy people remain that way and pass their wealth onto their children with creative estate planning. For example, she says the most popular tax avoidance technique is the use of trusts to pass on assets, as well as to control those assets while alive.

Most wealthy people and families will own some sort of trust to protect their assets from predators (e.g., creditors, ex-spouses, etc.), minimize estate taxes, and provide other legal and tax benefits, she says.

Also, many estates worth over $10 million are designed so that they do not pay any estate tax whatsoever, says Lofton. The advisor notes that this is accomplished by using a combination of marital deductions (to allow you to leave everything to your spouse), grantor retained annuity trusts (GRATs), charitable gifts, deferred gift-giving, and other legal/tax maneuvers.

Finally, the wealthy use tax shelters that legally allow them to lower their tax bill through the use of legal tax loopholes. Lofton says that examples include investment partnerships (e.g., Limited Partnerships), corporate stock ownership, life insurance policies, and offshore corporations, just to name a few.

It’s important to note that you don’t need to have $10 million to have a proper estate plan. You can start setting up the basics early on - from designating the appropriate beneficiaries on retirement accounts, having life insurance, and setting up a will and trust.

If you want professional assistance, new companies like Trust and Will are working to make estate planning more accessible to everyone. They can help you create the proper documents, and you can even connect with an attorney if you want to.

Bottom Line

It may seem like many of these tax avoidance strategies are only accessible to the wealth, but the reality is that just about everyone with assets can take advantage of them.

Even if you’re not a millionaire yet, you can likely take advantage of basic tax strategies like contributing to taxadvantaged accounts (think IRA and 401k), borrow against taxable assets (brokerage and real estate), and ensuring you have setup proper estate planning.

With these basic strategies in place, you too can buy, borrow, and die without paying taxes.