LIQUIDITY EVENT LESSONS
WITH LATTICE WEALTH MANAGEMENT

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[00:00:00.000] - Speaker 5

welcome to Liquidity Event Lessons. I'm Mike Ross.

[00:00:37.080] - Speaker 2

I'm Ryan Ross.

[00:00:39.000] - Speaker 5

Liquidity Event Lessons is all about what you should be thinking about and doing both pre and post-sale of a business, certainly for the business, but really for yourself.

[00:00:53.710] - Speaker 3

All right, this is an episode with Tony Kim. He is a tax law expert. He spent a lot of time at IRS, where he was Senior Counsel, helping the IRS. And now he's currently a partner at Kim and Rosario, which is a tax law firm. And who do they help out?

[00:01:11.200] - Speaker 5

Well, Tony helps out large companies dealing with tax issues. Nick deals with small companies dealing with tax issues.

[00:01:20.080] - Speaker 3

And they help them navigate the tax law landscape. If you've just had a liquidity event or you might have one soon, listen to this interview because three things that we really hone in on. We talk about how the IRS approaches the taxes of ultra high net-worth individuals.

[00:01:40.770] - Speaker 5

We also want to talk about the red flags that almost always guarantee an audit.

[00:01:47.540] - Speaker 3

Finally, we round it out with the differences between a tax accountant and a tax attorney. Two very different things, if you're not aware. We jump into all this. Now, enjoy this interview with Tony Kim of Kim Rosado Partners.

[00:02:00.990] - Speaker 2

Tony Kim, welcome to the show. We appreciate you coming on. For those who might not know who you are, can you just give us a little bit of background about who you are and what your firm does?

[00:02:09.790] - Speaker 1

Yeah, I am a tax attorney and a very specialized one. There are various There are US tax attorneys who may do sales and use tax, they may do estate planning. I'm in a very refined area that's in federal tax controversy, which that means is if you're dealing with the IRS and you have a matter that gets within the orbit of where they regulate. They have issues. Then they have a battery of attorneys. If you deal with the IRS, there's something like 1,600 attorneys that serve as counsel for the IRS. They serve in advisory as well as litigation functions for the IRS. The IRS is authorized to both interpret and enforce Title 26 of the United States Code, federal tax issues. For 26 years, I was an advisor and litigator for the IRS on federal tax matters. I didn't do state. I didn't do estate planning, although that is an area that the federal government handles, estate planning, excuse me, estate work. But I did mostly controversy work, which is advise agents in the field handling audits and also audits that didn't get resolved, that went to court. I represented the IRS in US tax court.

[00:03:27.840] - Speaker 2

One thing I saw, I want to get to this later, but I just want to touch upon it that you were on this IRS High Global Wealth Industry Group talking about focusing on the selection and audit of high net-worth individuals. I think that's really interesting. I'm just going to leave that as an Easter egg for later in the conversation. But I want to ask about, you worked at the IRS, how did you bring that into the private sector?

[00:03:55.010] - Speaker 1

On the IRS side, I I as agents and I represent the government. On the flip side, when I left the government, I went to private sector. It's really just operating on the other side of the table. So if an individual, let's say before they got into a liquidity event, hopefully, they say, Look, I don't know what I don't know. Is there something that could cause a problem later? Let's say if I were selected for an audit,

can you take a look at my situation and see if there are certain gaps or certain areas which are high risk. If they are, what can I do to mitigate those risks? That's what I did on the private sector side. Take the lens of what I did in the government. Look ahead and see, Okay, here are the problems, and here's what you can do to remedy the problems, or at least minimize the risk. That's what I try to do on the private side. Typically, what happens, as you probably know, most people don't to spend time or anxiety on planning. They wait until something goes awry, and that's where I get involved. They get a notice from the IRS, they've been selected for audit, and then the investigation begins.

[00:05:13.430] - Speaker 1

Then that's when we get retained We get asked, Well, we're undergoing an audit with the IRS. Can you help? Then that's when we get engaged.

[00:05:21.860] - Speaker 4

Tony, that's a perfect segment to really what I was going to ask. Can you give us a little bit of color, maybe a couple of war stories stories about where you've been engaged and some of the different areas people, both pre and post liquidity event, where they got themselves into trouble? What are in broad strokes, the circumstances that got them into trouble.

[00:05:49.670] - Speaker 1

First, let me just pigeonhole myself in the IRS. The IRS is a huge organization. It's about 80,000 to 90,000 employees. It is broken up into divisions. The two main divisions of small business and large business. Large business is any taxpayer, and typically it's medium to large businesses with income higher than 10 million a year. You could see that that segment is pretty large, and then everything below that is going to be the small business sector. Most of my career was in the large business. In large business, because the dollar amounts are so much higher, typically they were not sophisticated enough to hire advisors. When they did, it usually worked out a bit better for them because you plan well, you do better, you mitigate the risks. In those instances, one of the cases that I had, which I can't name the taxpayer, one of the taxpayers that I assisted in involved a very, very large, wealthy individual who started a retail company. Years, and this was very, very thoughtful planning. Years before the company went IPO, many years ago, the taxpayer was advised and did expatriate, that is, gave up US citizenship, moved to another country with a much lower tax hit, and planned the exit to mitigate US tax far in advance of the actual IPO.

[00:07:30.410] - Speaker 1

Now, the law changed, and that's code section 877 and 877 Cappé of Title 26. The law has changed. So now, right now, there's what's called a mark-to-market regime, which means that if, Ryan, if you had a company, you're about to go IPO, you say, You know what? See, guys, I'm renouncing my US citizenship. I don't like your taxes. I'm going to go somewhere else that doesn't hit me up for that many taxes. As soon as you renounce your US citizenship, mark to market, everything you own is deemed to be sold. You're going to get a hit tax it as soon as you renounce. In the old days, I think, let me see, the effective date was on or after June 17th, 2008. In the old days, and I'm dating myself I started with the IRS in 1995. In the old days, before the effective date of this new 877 Cap A provision, you didn't have an immediate mark-to-market. You could somewhat plan. That really is an where if you have effective planners, you have options. So there, there was expatriation. You hear of expatriation, and you think, sometimes people say, I don't like the politics of the government, so I'm going to leave.

[00:08:45.840] - Speaker 1

I may leave for Canada or Germany or wherever. But I think in this instance, it wasn't that. It was really tax planning at a very, very large scale. And there we got involved, I as counsel, in looking at the transaction to see if it was done properly. Were there problems with it? And of course, the treasury looks at the issue and says, Look, the law says what it says, but if you didn't dot the I's, cross the T's, then you're going to run a file, you're going to get smacked with tax. In that instance, after a long investigation, they planned properly.

[00:09:28.500] - Speaker 2

I have two questions about just the words that you're using. One of them was mark-to-market. What does that mean in this context?

[00:09:38.480] - Speaker 1

Mark-to-market. In that instance, let's say you have Amazon stock. You're going to get tax on Amazon stock is if you actually dispose of it. Then you have a taxable event. But in that context, in the expatriation, the context is not whether you actually dispose of the.

[00:10:00.760] - Speaker 1

It's deemed to be sold by the act of expatriation. The government's not saying, Well, you've renounced your US citizenship. We'll wait for you to dispose of it. No. Bill, you've left the country. We will deem you to have sold it, and you owe the tax today.

[00:10:23.370] - Speaker 2

It's like the government saying, You're dead to me. It's You're divorcing me?

[00:10:31.490] - Speaker 1

Well, heck, I'm divorcing you. It's a hammer drop. It's a mic drop on that one.

[00:10:42.150] - Speaker 2

Interesting. Mark-to-market, that's one of them. The other one, I want to make sure that we really clarify here because when I think taxes, I'm thinking somebody that does my taxes or an accountant versus a tax attorney. What's the difference there? I'm sure there's a stark difference, but I'm just really not clear on what it is. Okay.

[00:11:03.580] - Speaker 1

In my perspective, because I'm not an accountant, but an accountant typically looks backwards. That is, they look backwards on what you did to report on the return or on schedules, the depreciation. It reports, an accountant reports. Whereas a tax attorney like me or someone else, what they don't do, they don't simply look to report, but they look at the overall field of play, and they determine not only what was proper, but what potentially is at risk or what opportunities exist going forward because they have the landscape. And so I'll use a sports analogy. It's like a Magic Johnson going down the floor. Magic Johnson is not looking backwards at what is behind him. He's looking forward to see who could pass off the play and make the best for a score. A tax attorney is looking forward to see opportunities, whereas I think a tax account is just counting beans. Now, if you have accounts that are looking at this and viewing this, I'm not trying to demean accounts. It's just to generally label what they do. Accounts count, and tax attorneys typically look at a broader view of the playing field to see risks.

[00:12:32.000] - Speaker 1

And where there are risks, there are sometimes opportunities. And so they're looking at those gaps and to see, okay, what's a risk? So let me give you an example. Let's say, Ryan, you were my client. I'd say there are certain vehicles that provide opportunities. Let me explain what those opportunities are, what it would cost as far as you to get into those opportunities, what the potential gains are, and then the risk. Once I give you a layout of all the opportunities, benefits, and risks, then I'll make a recommendation, say, I would recommend you go into this one, but stay away from those. So then it's up to you, depending on your appetite for risk, based on my counsel, whether you want to go forward or not. There are some risks, and I'll give you one example, conservation easements. Conservation easements, it's a tax planning A

vehicle that is out there that I would not recommend anybody engage in because it's 100% audit. If you engage in a conservation easement donation, you're going to get an audit, and the government's going to go hot and heavy on you. There's such a huge risk that you got to look at the benefit and say, Okay, how much benefit am I going to get to that?

[00:13:51.270] - Speaker 1

Let me give an example of what conservation easement is. A conservation easement. They're usually bundled. That is it. One person doesn't do it. There's, let's say, a group of 20 that does it. Someone will go to you and say, Hey, we're going to get a swath of land in Georgia, and you give me a million dollars. We're going to go get this swath of land for, let's say, 5 million. We're going to have another 15 million in the bank, and then we're going to do other things to potentially develop it. But we're going to go to get a valuation expert, and the valuation expert is going to be asked, if we were to develop it as a mining operation for Quartz or, let's say, housing development, how much would it be worth? And so the valuation expert, just like an art appraiser, says, Well, I've looked at it, and if you were to develop it as a mining operation in Georgia, it would be worth $100 million. Well, what have you done, Ryan? You've invested $1 million, and you're 120th investor in this opportunity. The A million dollars is now what? Let's say it goes to, what did I say?

[00:15:03.720] - Speaker 1

Let's say 100 million. It's a fivefold increase in valuation. Now instead, for a million, you've got a $5 million valuation to your share. Now, what they do is you've got a $5 million share. The entity then decides not to develop, but donate it to a conservation conservancy, some nonprofit that says, I'm not going to develop it. They donate the land and say, We will donate it to you with a promise that we will not harm the land, and you hold on to it. Now, just like you would to goodwill, they've donated to a nonprofit. The nonprofit then gives a receipt for the value, which is what? Not 20 million, not 1 million, but 5,000. You then take the amount and you claim it on schedule A as a charitable contribution donation for 5 million. You spent a million, you take a 5 million deduction, and you report it as a deduction on schedule A. Now, the IRS looks at it and goes, What do we have? What does the IRS have? They have an appraisal report from an expert on land, which the IRS is not, and it says you donated something that you paid a million, but actually you have five million.

[00:16:25.540] - Speaker 1

Is that legitimate? Well, yeah, that's the Is that legitimate? Now it's got to be tested. For the IRS, once they get it, they've got to test it, which means that they've got to go hire an expert. They've got to determine whether this valuation is really, truly legitimate. Without speaking to whether it's legitimate or

not, you could see the potential harm to the tax system. That seems risky. That's on the look of it because it just flipped from the year of investment in one year let's say 2021, to 2022 or 2023. Within a couple of years, your $1 million investment went up by fivefold. Some of these investments, they went up by 20fold within a year or two. You could see it looks really bad. Now, a tax attorney like me looks at it, what do I do? I look to see what is being audited. Well, audits are not public, but what's being litigated, news reports, what Congress is doing. I look at the landscape and I would tell you, Ryan, I see the tax benefit, but the risk is monumental. What would I recommend that you do? Don't proceed.

[00:17:49.860] - Speaker 2

It sounds like these things happen a lot.

[00:17:52.900] - Speaker 1

Yeah, there are hundreds and hundreds of these cases pending before the US tax court now. If you just Google, conservation easement, IRS, and you will see that certain valuation experts have been indicted. I think one was convicted, one or more have been convicted. For some reason, a lot of these are in Georgia I don't know why they're in Georgia, but they're in Georgia. It's 100% audit. That is, if it's shown on your return, you will be audited.Automatic red flag.Automatic red flag. I've had those issues when I was a counsel attorney. I hated them because it looked so bad. Now, you invest a million in the next year or a year and a half, it becomes a $20 million valuation. I was like, Wait a second. Does that seem a bit too good to be true. If it's in the gray area, yeah, tax law is difficult. If it's in the gray area, sure. There are certain parts where the law can't answer every question. But On the face of it, it seems so egregious that that's where I think the difference, going back to your question, the tax accountant and an attorney. I think a tax attorney's job is to look at the landscape and assess risk, reward, and proper counsel.

[00:19:20.580] - Speaker 1

Whereas an accountant, they may do that sometimes, but that's not really the mainstay of what they do. Their mainstay job is to report what has happened and give you limited advice going forward in tax planning. What I do, likewise, is, let's say you have a liquidity event. I think for a liquidity event, I should not be the quarterback, a tax attorney like me. The quarterback should be a financial advisor. The financial advisor is planning going forward and saying, Well, here's your business, here's where you want to get to, here's the optimal liquidity event and time and valuation, so on. Let's pull people in that could serve as resources to make sure that we have a full picture and we cover as many gaps as we can identify. Then one of the people that can be brought in is someone like a tax attorney who can plan and look for tax gaps. But let's say for someone like me, I could only look for federal issues. Then you got to

get a tax person that's state-specific. Maybe then you have to look at a person that is an estate planner. That is also a different skill set.

[00:20:44.000] - Speaker 1

You got at least three. You got a state planner, you've got a state tax person, you've got a federal tax person. In tax, at least three. Then with other aspects, I don't know whether you have benefits issues. You got so many different issues that may come up that I, as a tax controvert person, I'm not adept at understanding the field of vision for a liquidity event. Whereas I think a financial planner, to me, a financial planner is the quarterback. That's their job. Look at the field of play and figure out where all the possibilities are and get the right experts into the transaction.

[00:21:24.590] - Speaker 3

Let me keep going down that path because I have actual experience I have in the past and I'm trying in the future to gather the wagons of attorneys, if you will, because I know that there are liquidity events coming up and the client is revulsed by the idea of seeing all those billable hours get choked up. Let's look at the opposite of that, Tony. You have someone who goes through a liquidity event. They either consciously or unconsciously do not not put that team together despite the advice. I got to believe you've seen circumstances where taking that approach has caused things to go askew, if you will.

[00:22:10.780] - Speaker 1

Yeah, and I go back and the answer for me, my experience is no, I haven't seen that. The reason is the sector that I've been involved in, which is going back to what you talked about, global high wealth, they're the wealthy segment of the population. They have the knowledge, and I think Perhaps they have the knowledge because, one, they have the experience of going through a number of these events that they know better. They have the money and they know better. They know enough that they will not go into a transaction without the right people involved. The people in the segment that I think typically get involved are not where I work, which is large business, but typically small business, where the experience was they've never been involved in a liquidity or with a size, so they try to save some pennies, and that's where they get into problems. As you know, my law partner, nick Rosado, he was in small business self-employed. He was in the other division. That's where his experience, I think, he saw more people that had the problem because they tried to save pennies. In my division, Large Business and International division, there were more experienced taxpayers, better resourced taxpayers, so that they had the experience in the funds to be able to know better.

[00:23:36.180] - Speaker 1

So they got the experts involved. So I didn't see it. I saw good planning. I saw planning well in advance. I saw the right people getting involved. And They were better at not only planning, but also getting the right people who then, when asked, said, Here's the plan. We did everything. You may disagree because we operate in the gray area, but here it is. Here's the plan. Whereas with some people, they just didn't have a plan or they didn't have a good plan. I did not see that.

[00:24:06.150] - Speaker 2

I want to go to that global high net wealth topic. You said that, while I was reading on your website, it was talking about that you were on this industry group, the IRS's Global High Wealth Industry Group. It was a specialized unit that was focused on selecting and auditing these high net worth individuals. My question is, how did you guys decide who to audit and what was the selection criteria? Does it still stand?

[00:24:36.480] - Speaker 1

Back in 2008, 2009, the IRS determined that very high networth individuals, their tax returns were not normal. Some of those tax returns were as complicated as some medium to large businesses. They were not what you would expect of a normal person's Form 1040. What would happen, and this is This I experienced as well when I, for a brief stint, was an executive director with Ernst & Young. When I was at Ernst & Young, some high net-worth individuals hired me to defend them in audit. And given their wealth, it would be not only me, but I would have a staff behind me to represent them before the IRS. But when the IRS at that time audited an individual, it was one auditor against me and a slew of people. So it was really not a fair fight. So when they asked for one thing, I would just get as many documents together because when you have the staff, you can do it. And then I would get as much documentation as I could. And next thing you know, the agent says, I would like one, two, three, and they get 15 boxes of information. One agent.

[00:26:02.350] - Speaker 1

And that one agent is overwhelmed because the IRS, as probably you know, is understaffed. So that one agent is just overwhelmed with information. And so what would you do if you had one case where I'm representing the client, I'm one of 50, 100 cases you have, and I've just thrown 15 boxes at you. What next would you like, Bill? I would like you to give me another thing. So here's another 15 boxes. What else would you like, Bill? May I take another? You end up being overwhelmed. Next thing you know, it's not going the way the government thinks. In that, you could see the disparity of the playing field. At that time with the IRS, the IRS recognized that the playing field was not to their liking. They said, If you are in this segment, global high wealth population, We will treat you as if you're a company. And so no more one-to-one because it's not one-to-one. It's not one agent. It was now going to be a team approach. And they're

not going to look at just one 1040. They're going to look at the 1040. They're going to look They may have a trust that you may have.

[00:27:16.440] - Speaker 1

They may have not only trust, but a nonprofit organization. You may have foreign entities. They're going to link the entire story of your return from 1040 and not look at just the 1040, but perhaps open up other linked entities, an escort, an LLP, an LLC. They're going to link all of them to figure out what your true income is. And so once, let's say, you become part of the population, you get audited, then there's not going to be one agent. There's going to be a team looking at the entire scope of it. Now, this was back in 2009. It still exists today, the Global High Wealth Unit. The entry into the door of being a global high wealth taxpayer is if your positive income is 10 million or more. Now, positive income means that any positive number that goes in your return, let's say, dividends, capital gains, wage income, unreduced by any deductions like depreciation or anything like that. No negative adjustments. It's just all positive numbers. Once your positive number is 10 million or more, you're now in the population, the global high wealth Once you're in that population, then they look to see if there are certain indicia, and I don't know what they are, but they look at certain indicia to determine whether there is some risk element that warrants an audit of that return.

[00:28:44.760] - Speaker 1

Once it's audited, it's not one agent, it's the entire team. It could be two, three agents. It could be a computer audit specialist. It can be an engineer. So they're going to put in the resources to look at the entire picture and then determine, Okay, let's see where the information leads us. This makes sense because a lot of returns that I've seen at the very high level, they are really as complex as some large corporations. So you need a team approach to look at that. Now, I will say this. Excuse me. If you're in a global high wealth division, let's say you're a taxpayer in that division, it's now going to flip to a huge next level because of what you may have already heard, which is the Corporate Transparency Act. The Corporate Transparency Act was a law that was passed by Congress a few years ago. What that does is starting… It may be delayed, but starting in 2024, if you are an entity, let's say an LLLC, LLP, any entity that had to file with the state government for existence. That's an LLC. The Corporate Transparency Act says that you must file a report with FINTEN, which is a US Treasury agency, with your picture, your residential address, and your ownership of the entity.

[00:30:27.380] - Speaker 1

That's important because that information that you that you follow with FinCEN can then be shared with the IRS, including Global High Wealth. That helps paint the picture of all the holdings that you have.

Whereas before, the IRS did not have that information. It couldn't paint the picture. That Corporate Transparency Act provides a lot more depth and connections than the IRS had before. If I were still with the IRS, that's probably the first place I would go once the information comes in, I want all the links. For the IRS, more information is good. For the taxpayers, if you're not playing any games, more information doesn't matter. So here you go. But if you have things to hide, I think certainly having more information accessible by the government is not a good thing. And that's what's going to happen starting in 2024. There There has been a House resolution bill passed that proposed to delay the effective data of the Corporate Transparency Act by a year or two. I can't remember. But I don't think the Senate has yet passed it. But the Corporate Transparency Act is a big thing that's coming over.

[00:31:48.970] - Speaker 2

You said that. Just really quick, and then we can get to the next one. The level that starts affecting somebody is at the $10 million income mark, right?

[00:32:01.210] - Speaker 1

Positive income, yes.

[00:32:03.190] - Speaker 2

Positive income. If they make over $10 million in the next year, they don't do so well, so they go back down to $9, they're still probably triggered in the system because one year they made $10 million, right?

[00:32:14.270] - Speaker 1

Yes. They could fall off, but once they're in the system for that year, that year could be opened up. Years ago, I talked somebody who was scoping the returns. I don't know what indicia they look for.

[00:32:37.410] - Speaker 2

Yeah, what's that phrase mean? Is that just like a quality indicia?

[00:32:43.010] - Speaker 1

Factors. What factors they looking for? I recently assisted a meeting business in Pleesenton, and he ran a construction company, and the construction government got picked up for audit. After everything concluded positively, I asked the agent, I said, Hey, can you tell me why did you pick up my client for audit? He said, It was just one item. It was bonus depreciation. He had several trucks, which, hey,

construction companies have trucks. But the bonus depreciation was so large. That one line item was the only thing that triggered the audit. Just that one line item. I said, It wasn't income, it wasn't meals or it wasn't travel. He said, Yeah, just that one line item. I said, Oh, okay. I called my client, I said, That bonus depreciation line item was so askew that that's what caused it. I said, damn my accountant.

[00:33:37.860] - Speaker 2

Yeah, I was going to say, I wanted to invest in this ecological conservation in Georgia, but I didn't do that.

[00:33:46.090] - Speaker 1

And I got this bonus depreciation. That got me snack. It may be one item, like a bonus depreciation number that seems off, or a lot of people think it may be the home office deduction. Home office deduction Home Office detection is so tiny. I don't know. But you're grasping. But the question is, what is the IRS focusing on that could cause you to be selected for audit? For global high wealth, I don't know. I don't know what it is. I do know if you've kept up with the press that IRS is starting to use AI to try to look into returns and to determine, based on the AI, what seems off, what seems off? What seems off enough where it should trigger an audit? I remember many, many years ago, somebody had said, Oh, yeah, I think they're using an algorithm based on numbers. And I said, Well, what does that mean? The last two numbers, I think it was the last two numbers, of every line, there's a certain randomness to patterns. And so if it's a 1, 3, 8, 9, and so on, it's just random. But if those lines and the last two digits don't meet a random pattern, then it's got to be fictitious.

[00:35:09.660] - Speaker 1

So what they do is they have a mathematical formula. They look at the randomness of numbers. If it's like 99%, there's no way these numbers are random. Somebody had to go, Oh, what? So they'll look at that and whether they use that for an audit. I don't know. I do know this. Years ago, there was a tax return preparer whose clients all got picked up for audit. All of them. And I had asked, I said, Why did this tax return preparer All of their clients, get picked up for audit? And they said, Because all of his clients had the same exact charitable contribution number on their return to the dollar. So, yeah, that's pretty stupid.

[00:36:01.150] - Speaker 2

That's a red flag.

[00:36:01.630] - Speaker 1

That's a red flag. Yeah, the same dollar amount showed up on charitable contributions on all the return. So if you have a tax return preparator, they have to put their IPin. I think is the number. It's really easy. Pull the IPin and look at every return, look at the schedule A, charge of contribution. Oh, $3,202. $3,202. Wait a Give me a second. This is just too easy. That's what happened, and everybody got pulled. When they got asked, Why are you auditing me?

[00:36:38.400] - Speaker 2

That's why. If things are too clean, something's going to smell fishy. Yeah.

[00:36:43.800] - Speaker 1

Now, that is an indicia. An indicia is an indicator or factor that prompted further inquiry. That would be an indicia, whether it's the randomness of numbers, whether it's a bonus depreciation number that seems way out of whack, something that gives pause to the to say there doesn't seem to be something right here. Or not just pause, but a directive. The IRS has no discretion but to audit the return, such as a conservation easement donation that shows it's a $5 million deduction. Wait a second. The number, you got a conservation easement. I think it's listed by the IRS now as part of the Dirty Dozen. That is, it's such an egregious transaction that the IRS has issued notice to taxpayers saying that it warrants taxpayers not to engage in such a transaction.

[00:37:40.690] - Speaker 2

Is that a published report, the Dirty Dozen?

[00:37:43.550] - Speaker 1

Yes, it's on iris. Gov. There are what's called listed transactions and reportable transactions. You can look at those. And the IRS provides a list, a notice of these types of transactions that the IRS is deemed to be very, very aggressive and to be careful of. I've had a number of people ask, I've gotten some pamphlets regarding conservation easements. What do you think? I'll give you my bottom line. I would not do it. If you decide to engage in it, I'll put in my email that I advise you not to engage in it. So then when you do engage in it and you get audited, because you will, when you get audited, you contact me and I'll be happy to represent you. But the other aspect of audits, they're not only monetary movements, left or right, black or red, but they're incredibly stressful. Not only advisory numbers, you have to pay someone like me to work on them, but they can take years They're so stressful. Are you okay with that as being a transaction cost? It's not dollars. It's a transaction cost. It eats into... I'm not capable of it, which is just disassociating myself with the of a government investigation.

[00:39:32.410] - Speaker 1

I can't do that. Are you okay with being subject to a government investigation that can last years? Forget just the bills that are constantly going on. If you're not, then why would you engage in something like this? Sure, there's always tax risk, but when you're assured 100% tax risk of audit, that's a bridge too far for me. That's why That's why you want to engage, I think, the right professionals in a transaction, let's say, liquidity event. I want to minimize risk. I want to maximize gain and minimize risk. The smart play is you can't be looking to save pennies. You got to get the best people involved. You got to be willing to invest because what you're investing is tranquility, maximize Minimizing gain, minimizing tax. But also it's minimizing the stress level of an already stressful situation, which is a great event because you're pulling cash out, hopefully, and you're gaining. But if you don't have the right people, you're not willing to understand that investing in the right people is a smart investment. If you don't understand that, then you're walking into, I think, not a certainty, but a probability of higher stress and on higher tab.

[00:41:04.250] - Speaker 1

It's short-sided. That's why I think in my division, when I was in large business, a lot of people had the benefit experience and dollars to understand that they see the value of advanced planning and hiring the right people. Whereas I think if you haven't been involved in it, you don't understand what you're saving. And then you make some foolish moves. And you don't know until afterwards that you haven't had the foresight. So in my division, I saw a lot of people with the foresight, and they ended up saving a good deal of money. The trick, I think these days, is trying to get people who haven't been through the grinder to understand what the grinder is like. That's not always easy.

[00:41:49.110] - Speaker 2

Sure. Well, we've covered a lot of ground. If somebody is in a situation where they need some strategy on what to do and how to approach their taxes intelligently, how can people get in touch with you?

[00:42:03.520] - Speaker 1

Sure. Yeah. Thanks for that. They can look us up on Google, Kim and Rosado. They can look up my name, Anthony Kim, a tax attorney. I think most of them will get routed to me. Some of them will get routed to, I think, Anthony Kim, the former PGA golfer. But some of them will get routed to me. Typically, what we do is we just try to figure out how we can help. And the great thing about it is I've only been in practice about 15 months. As you develop a network, we practice what we preach, which is if we can help you, we'll let you know what we can do. But if we see an issue where someone else could be a better fit and help you in an area that we can't, we push you to the right professionals, a financial planner, a state person, a sales tax person, people that make a living in adding value. If we can do that, we'll do that on

our sector, which is a very niche area, which is tax biodiversity. But otherwise, we find people like Bill, someone else that can help fill the gap and get them to the right place and get them planning ahead well in advance so that they avoid missteps.

[00:43:24.930] - Speaker 2

Anywhere, specifically in the country that you guys focus on, or is it nationwide?

[00:43:30.490] - Speaker 1

Nationwide, yeah. And federal tax, we can handle any state. But typically, since we're in California, we handle a lot of California issues. We travel a lot to New York. We have a lot of clients in Southern California. But typically for a small business, because we have two partners, nick and myself, and then we have two other former IRS attorneys who are of counsel. So just the four of us, we typically, most of our clients are in the coasts, New York and California, and most of them come from referrals.

[00:44:05.050] - Speaker 2

Perfect. Well, hopefully we can generate some of that out of this. Tony, thanks for coming on the podcast, and we will hopefully do this again because this This was a lot of fun. We had a good time. Thank you so much.

Here is the link to the podcast on Spotify if you would like to listen
https://podcasters.spotify.com/pod/show/liquidity-event-lessons/episodes/Liquidity-Event-Lessons-Tony-Kim-e2iar83

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