Aaron Goldberg ([00:02](https://www.rev.com/transcript-editor/Edit?token=ZhKpsWzKWKvSWd-a2-ReOy2RQOEoTb0GewgEwE7OsZm5c-VBWAp5LBe93WrFxoRgyqRAQ5UEUDdZx3JgN4bXVzPOHL4&loadFrom=DocumentDeeplink&ts=2.06)):

Hey, everyone. Welcome back to the PGA Players Podcast. I'm your host, Aaron Goldberg, certified financial planner and private wealth advisor at AWM Capital. Today, I'm joined again by my business partner, Erik Averill, and we are going to be discussing for a golfer whether or not you should be establishing a corporation or an LLC, especially when you turn pro, but further on into your career. So, Erik, thanks for joining me. I'm looking forward to the discussion today.

Erik Averill ([00:30](https://www.rev.com/transcript-editor/Edit?token=jxO04VCsC2oVfs9-IQDp85TmhZF_eHuxmGnFWb0WQgs9lACsSaG5D6KjCgWZtJpH7SEWXS0b5qHLBzaoLpLduwXBwXM&loadFrom=DocumentDeeplink&ts=30.86)):

Yeah, excited to have this. This is probably the most frequent asked question right off the bat. The minute somebody turns pro in really any sport it's, "I've heard I'm supposed to set up an LLC, a corporation," and it's usually driven by the question around taxes. So tackling this is going to be super helpful. Our job is to demystify a bunch of the amateur advice and provide the professional advice around what should they be doing, because there's definitely some advantages for the right athlete.

Aaron Goldberg ([01:05](https://www.rev.com/transcript-editor/Edit?token=Y6cXJPZx1phymUr4Ri0DzE9gfc-n7gXMdGRKCtZeOLhpT6Sp8fCOuL-PLXOgGMTohfOvcifsnFGhbvqlx6xplncktAo&loadFrom=DocumentDeeplink&ts=65.87)):

Yeah, absolutely. I get this question all the time and really there's two main advantages of establishing an LLC, which is a limited liability corporation. First off, it's on the liabilities side, and as a professional golfer, if you're at a tournament, the tournament's going to have liability coverage, but there could be some off-course issues that you want to make sure you're covered on. And then the second advantage is the tax side, as you alluded to, Erik, and there's some taxes that we may be able to avoid or at least reduce by filing as an LLC and having our income come out in a little bit different ways. I really like the question when players ask it, because it goes back to the idea that we really need to treat ourselves and our profession as a business. So it makes a lot of sense that we would turn it into a corporation, but really when to do it and how to do it is probably the biggest question to be had.

Erik Averill ([02:03](https://www.rev.com/transcript-editor/Edit?token=Vp3jYUK3BRHPoLiq86XLHt89-dRQR4-lh6BA2g9rijjQKcnDH1C17j0mHBn1fTFkHz2cMGept25j4daIerTOscBZlWM&loadFrom=DocumentDeeplink&ts=123.02)):

Yeah, I think the devil's in the details there, and this is why you can't blanket say, "Every single athlete needs one of these." It comes down to the customization and the specialization, because we have the privilege of working with a lot of MLB players or NFL players where the majority of their wages comes in, their payment is through W2 wages, and so setting up an LLC does very, very little for these guys as far as tax benefits. They are limited on their unreimbursed business expenses. They can't write that off, and so it's really limited to the money they make off the field. And there's not really liability for the NFL player, the MLB player when they're signing a card deal, and so you can't say this applies to every athlete. Here, golfers are unique once again and don't need any random CPA. They need someone who knows exactly what's going on in their specific situation.

Aaron Goldberg ([03:03](https://www.rev.com/transcript-editor/Edit?token=UlNHsjTEGZq7RQpmknb3wRJeXEoPewoAic7MtQ2AK2Jvn882ByLhgxe1fw--aO7TLfQ6Fp-7zryeoQ6eUrqzQaH9QfM&loadFrom=DocumentDeeplink&ts=183.92)):

Yeah, absolutely. So let's start off on the liability side of it, because I think that's probably the most overlooked part of it. For golfers, as you alluded to, other athletes, most of their income that they could run under the LLC is going to come from some endorsement deal, but there's not a whole lot of liability there. For a golfer though, as I said, if you're at a tournament, the tournament's going to have liability coverage. It's still a good idea to make sure that we're covered there and having the LLC really helps protect, give an extra layer there. But where it could have a lapse or that gap in liability coverage is, let's say you're out at a corporate outing, a big corporate outing, a big Pro-Am, they're going to have the coverage. It may not be enough, it may not be a high enough limit, so it's always nice to have that LLC umbrella over your business income and keep your personal assets separate. But let's say you're out with two of the executives from an endorsement deal that you have.

They're probably not thinking, "Hey, we need to make sure we have liability coverage that day." It's just not something that's coming or going to come to mind. But let's say they wanted to see how far you can hit it and you hit into the group in front of you and it hits the cart path and hits somebody in the head, there's no liability coverage there. They see you with your staff bag, they may or may not know who you are, but all of a sudden they see dollar signs and they're going to sue you. And if you don't have an LLC, now they can go after all of your personal assets as well. So it really is important to just have that LLC umbrella, because of all the off the court or off the tournament type income that you're going to be making that could be still involved with your profession, that we can cover with the LLC type of corporation label with protecting the personal assets side of it. So it's important to keep that in mind, and then we'll go into the tax side of it as well.

Erik Averill ([05:01](https://www.rev.com/transcript-editor/Edit?token=5qA28WTP9ylgBsohajIun8DB_LGIbA4wqZI7sCTbcdL3KFN480O1k8XADrcuSp65lGpWGvuS100wvIIITzQ7fgBTvvM&loadFrom=DocumentDeeplink&ts=301.55)):

Yeah. Just one note on the liability and why it's so important from an asset protection standpoint, for a lot of our listeners, I know when I was first a professional athlete, I didn't really understand what an LLC meant or what the basics of it were and the importance of separating out those assets. And so another big part of when you set up these documents is there is a compliance part of it. It's not as simple as just going on legal Zoom, paying 300 bucks, and setting up an LLC, because this is what we tell everybody. "I understand you want to be fee sensitive in the beginning, but you want the legal documents to work when you actually get sued." And so what you don't want to have happen is something called piercing the corporate veil, meaning you set up a document but you didn't set up the separate bank accounts.

You didn't do the right administrative work on the backend so that when the lawsuit comes, they actually say, "No, Aaron, there's no difference between your LLC and your investment accounts. So there's a $2 million judgment. Yeah, we're going after your money in your bank account." And so it's not only, yes, setting up the legal document, making sure you have the right bank account, and keeping the assets separate on the accounting side in the background. And that's what a qualified CPA and CFP who works with athletes is going to understand so that you're not having to worry about that. You need to go out on the course, you need to be able to compete and play, and know that your professional team on the back end is actually handling that administrative burden so that you're getting the full effect of the LLC. And so now we can jump into taxes, but I thought that was just a really important thing to lay out because a lot of times we see the LLC with none of the professional systems behind it.

Aaron Goldberg ([06:47](https://www.rev.com/transcript-editor/Edit?token=doFwrWeJ24-23Q0OXmrq84nq_eVq54w-cjQ0TzxvQpWSLQNr5ukrzEe-HZk_dePem-cQGaH__JlEQ9tRj3Ft9KUPHwI&loadFrom=DocumentDeeplink&ts=407.76)):

Yeah, it's a good point, because the first step is establishing the LLC, but there's some maintenance involved and we want to make sure that not only the maintenance is done, but that it's kept up to par on an ongoing basis. Yeah, so from the tax point of view, this is where golfers are so unique compared to other athletes. Every dollar you make is going to be 1099 income as opposed to salary or W2 income. So it adds some really beneficial flexibility there in how we can treat that income. So if we have an LLC, we have the option to opt for being taxed as an S Corporation, or as a sole proprietor. Sole proprietor, think just normal person getting income as I'm the business. S Corporation, you can have multiple shareholders. In this case, you're going to be the shareholder. But we can treat the income in two ways. First as salary or wages, and second as distributions.

The tax liability on those are going to be slightly different. You're going to end up paying federal and state taxes just like you would in any other income scenario, but the way that self-employment tax is distributed on those incomes is where we can really add some tax savings. So, again, it's going to be unique to everybody. It used to be a common theme or just a foregone conclusion that as soon as you start making money and you have an LLC, you're going to opt for the S Corp because we may be able to have some of that tax savings. But now with the Tax Cuts and Jobs Act a few years ago, they have something called qualified business income that we can use as a deduction. So once you're making over 200,000, it's right around 200,000 as a single filer, or a little bit over 400,000 as a married filing joint filer, that QBI deduction goes away.

So once you're over that then we probably want to go to the S Corp election, but it's definitely something you want to go over with your qualified CPA, or your CFP or CPWA. But if you're under that limit, so I'm thinking a lot of the guys that are first turning pro or in their first couple of years, it's almost more beneficial or can be more beneficial to stay filing as a sole proprietor so that we can use that QBI deduction and actually have a bigger beneficial savings with the deduction as opposed to the self-employment tax write off or non-tax treatment of some of that income.

Erik Averill ([09:28](https://www.rev.com/transcript-editor/Edit?token=h9iujvjO3EhUBcc3fF-qi0VDgTao1V8KemZjB4UGoR1NH1basUp-UDrbeyacTnCKVF4OUFUaNE5WeK6Lli0OrumYzNw&loadFrom=DocumentDeeplink&ts=568.08)):

Yeah. You hit on some great points. What I also heard in there was this is ongoing planning. Prior to the Job and Tax Cut Act, it was a foregone conclusion. S Corp all the way. Now all of a sudden there's a change. We have a new President-Elect that there are questions whether or not the QBI deduction is going to go away. And if that happens, now we've got to reevaluate, are we still in the same structure? And I think that's one thing at AWM that we drive home about is it's all about your financial structure. It is a lot of times the decisions that are being made. First and foremost is saying, "How is it impacting your entire net worth? How are we maximizing your after tax first take home pay and then, and then returns when once we start to invest it?" And so that LLC structure is so important that it's being managed on an ongoing basis.

We had an unfortunate situation. We have a new client that came to us, had this situation, and they were still an S Corp over the last two years and have literally lost out on the 20% deduction, because they qualified for the QBI and now they're going to make too much money. And so you're talking about serious, serious mistakes of 20% of their adjusted gross income under $400,000 as a married couple. And so the other thing that I think is cool to point out that really never applied to someone before was as a collegiate athlete. So if you happen to be a college golfer listening, or you happen to be an agent or a parent and somebody who is familiar with the NIL going on right now, which is name, image, and likeness, an opportunity for collegiate athletes to profit off of their name, image, and likeness, LLCs, here we go, this applies absolutely to all of them. And so it's really important.

And then we get geeked out on the advanced planning too. You have a spouse, you actually have a business manager, you have a caddy, you have people in your circle that are working for you. Another way is we can set up retirement plans on their behalf, and now all of a sudden, you truly are a business and the options are limitless for us to be able to minimize your tax liability and drive home how much money you put in your pocket.

Aaron Goldberg ([11:45](https://www.rev.com/transcript-editor/Edit?token=SvKoMrIpfyo7Zu7mVcdbNrJBFV7SvelRWwx5vQgBBveMDCeqTUA5Zto8oUBhCplqW3C1ye9CMyzLY930ib-CJS5A1jg&loadFrom=DocumentDeeplink&ts=705.04)):

Yeah. I mean, there's so many good points there. I think the two that really stick out to me are these college athletes that have never had to worry about this, are all of them going to have an IL type income? No, but the top guys definitely are going to have some opportunities there. They're going to have the same liability issues and definitely going to have the same tax issues so we want to make sure that we're optimizing it there. The other part though that I think gets overlooked quite a bit is paying a spouse. We're trying to keep that income in the household, of course, but we're trying to also defer as much of the taxes and lower that tax liability as much as possible. So trust me, whether they're doing an exact role or not, they're working for you, because they're helping on everything.

I know my wife was working a full-time job. She was probably working a second full-time job helping me when I was on the road, even when I was home, helping me with travel, helping me with organization, with nutrition, with everything. So being able to pay your spouse enough to at least fully fund their retirement account, if we're at that income level, right there, off the top, we're going to be saving close to 40% in taxes on that income. Now, that's when we would get into more details with you for every unique situation, because then there's some self-employment tax that we've got to take care of. But there's a lot of different ways that we can explore taking advantage of the laws that are set in place right now and then also making sure that we keep up with all the new laws as you alluded to.

Depending on what happens with the Senate vote in Georgia, we may have a lot of changes on tax laws. We may have very few changes in tax laws coming up over the next few years. But you want to make sure that we're keeping an eye on that and staying up to date, that's for sure.

Erik Averill ([13:31](https://www.rev.com/transcript-editor/Edit?token=kgf-_6PsKHIo-8Y9NCh7xcHN2N3XT3Ho0WaKQ8X8IP1L7Vl-t48voi-PsTufn01pYvhz1i5Isv8MHZPpmPIDzfVnKDU&loadFrom=DocumentDeeplink&ts=811.39)):

Yeah, and for everybody listening, I know we're throwing a lot of detail at you. So the good news is if you don't have that pen, you don't have that paper, no worries, it's in the show notes. So you can head over to pgaplayerspodcast.com, pgaplayerspodcast.com, and access the show notes with all of this detail. And the last thing that I'll leave you with, and Aaron, we'll cover this in a future episode, for sure, is it doesn't stop with just saying, "Okay, I'm going to set up a retirement plan," it becomes completely customized to who you are. Because if you're a college kid or maybe you're on the Korn Ferry Tour or maybe you're just starting out and you don't have hundreds of thousands of dollars, now you're going to take advantage of something called a Roth IRA or a Roth 401K to get money into that 401K. But now it's money that's gone in that we'll never pay taxes on it ever again. And so, once again, it comes down to your personalized, customized solution to meet you where you're at.

Aaron Goldberg ([14:31](https://www.rev.com/transcript-editor/Edit?token=mjuFwt5AwFBI0eq_UUdLIob4JKtu16SQh8KzfYXn730R8UDZYT9KrHxJ8tOfuL5fvhe48mqx3RE7Kho0AupEFDfa8bA&loadFrom=DocumentDeeplink&ts=871.45)):

Yeah, exactly. There's a lot of options and, honestly, that's the fun part for us, is to be able to look at somebody's unique situation and figure out the best plan for them. So looking forward to discussing that further both with you, Erik, and with all of you out there. Until next time, stay hungry, stay humble, and always be a pro.