Asset Protection Made Easy

How to Become Invincible to Lawsuit, Save Thousands in Taxes, and Set Up a Successful Estate Plan

By Cameron C. Taylor

This book provides education and general principles and in no way represents a proposal or specific recommendation. In this book, the treatment of the law is general and is not intended as a comprehensive discussion of all relevant issues. We suggest you seek the advice and recommendation of an attorney specializing in asset protection to review your specific goals, assets, and circumstances. I work with the highest grade and most experienced asset-protection lawyers in the country. We are here to help you. If you have any questions, please contact us. My email is CCT@DoesYourBagHaveHoles.org.

Preface

"To me the law seems like a sort of maze through which a client must be lead to safety; a collection of reefs, rocks and underwater hazards through which he or she much be piloted."

-John Mortimer

I have spent the last decade working closely with the nation's top asset protection attorneys. I am excited to share with you the strategies and tools they have used in their law firms to save their clients millions of dollars each year. This book will teach you how to become invincible to lawsuits, save thousands in taxes, and achieve financial peace of mind. This book provides solutions to three major problems.

Problem #1: There are over one hundred million lawsuits currently pending in the United States, and it is estimated that a new lawsuit is filed every thirty seconds. It is now routine for judgments to be in the millions. If you are not properly structured, it only takes one lawsuit to lose everything.

Solution #1: This book will teach you how to protect 100% of your professional and personal assets from lawsuits and how to make yourself so unattractive to a plaintiff attorney that they will not pursue a lawsuit against you.

Problem #2: Billions of dollars are overpaid each year in taxes as a result of people not using all the deductions and tax laws available. According to the IRS commissioner, millions of taxpayers are overpaying their taxes each year.

Solution #2: This book will teach you how to reduce your taxes to the legal minimum—potentially saving you thousands of dollars each year. You will learn the tax reduction strategies used by the nation's top tax reduction law firms.

Problem #3: The vast majority of Americans either do not have an estate plan or have an incomplete or ineffective one. If you are one of the many who do not have an effective estate plan, up to 50% of your estate could be lost to probate costs, federal estate taxes and state inheritance taxes.

Solution #3: This book will teach you how to avoid probate, and eliminate or dramatically reduce your estate taxes. You will learn what you should be doing now to prepare for successful business and estate secession.

Complimentary Customized Asset Protection Plan and Consultation with Attorney

Although this book will teach you about the strategies and tools you can use to bulletproof your assets against lawsuits, save money in taxes, and plan your estate succession, the specific strategies and entities you use and the state you sent them up in will vary depending on your specific goals, assets, age, family situation, and the state in which you live. To ensure you know exactly which entities you need to set up and why, I have arranged for the finest and most experienced asset protection law firm in the country to provide readers of this book with a customized asset protection plan and phone consultation. Normally, the law firm charges clients $695 for this service; however, do to my relationship and influence with this firm, they have agreed to provide this service to those I refer to them at no cost. This is a very unique opportunity to have one of the Nation's top asset protection attorneys provide you with a customized asset protection plan, and for you to get all of your specific tax and legal questions answered by one of the nation's top experts with no obligations or cost.

This law firm has over thirty years of experience specializing in asset protection and has clients in all 50 states. They have done work for professional athletes, Hollywood celebrities, CEOs of large corporations, and thousands of physicians, dentists, business owners, real estate investors, and other professionals.

To begin the process of receiving your customized asset protection plan and consultation, I will send you a questionnaire the law firm needs completed. Your information will be kept confidential and is protected by attorney client privilege. Your plan will be tailored specifically to your goals, situation, assets, and the state you live in. The asset protection plan will clearly illustrate the entities you need to set up to ensure your professional and personal assets are 100% protected from lawsuits and that your taxes are reduced to the legal minimum.

You will receive your plan within 5 business days of the law firm receiving your completed questionnaire. You will then be contacted to set up a time for a phone conversation with the attorney who created your plan so that the suggestions can be fully explained and clearly understood and your questions can be answered. If you would like, you can have family members, partners, and advisors on this call so they understand what you are doing and can have their questions answered as well. Research found in *The Millionaire Next Door* concluded that "your ability to hire high-grade financial advisors is directly related to your propensity to accumulate wealth."[1] To receive your complimentary asset protection blueprint and consultation, please send me an email at CCT@DoesYourBagHaveHoles.org.

Table of Contents

What is Asset Protection?

Asset protection includes three categories: lawsuit protection, tax reduction, and estate planning. There are strategies you can use to protect your professional and personal assets against lawsuits. There are strategies you can use to reduce your taxes. There are strategies you can use to effectively pass your estate to heirs. You must understand the strategies and tools used in all three categories and how they interrelate to set up an effective total asset protection plan.

This book provides you with an overview of lawsuit protection, tax reduction, and estate planning and introduces you to the strategies and tools that are available to help you bulletproof your assets against lawsuits, save money in taxes, and plan your estate succession.

Overview of Lawsuit Protection

"A lawyer with his briefcase can steal more than a hundred men with guns."

-Mario Puzo, author of *The Godfather*

There are over one hundred million lawsuits currently pending in the United States, and it is estimated that a new lawsuit is filed every thirty seconds. It is now routine for judgments to be in the millions, and the cost to defend yourself, even against a frivolous lawsuit, can cost $50,000 or more. With the number of lawsuits and the size of judgments on the rise, it is vital to have your professional and personal assets structured for lawsuit protection and prevention.

To protect our individual rights, there needs to be a legal system that holds people responsible for their actions when they cause injury to another. Not many people would object to this idea. However, in the current system, few cases result in the application of this principle. Many jurors have freely admitted that they have overlooked whether the defendant was at fault if they feel sorry for the plaintiff. Judges and juries often play Robin Hood to give money to a sympathetic plaintiff. In today's litigious environment, you can do everything right and still lose a lawsuit.

All too often, people are named as defendants in a lawsuit because of their ability to pay, not because of fault or error. Most lawsuits are done on a contingency basis, so one of the first things an attorney does before accepting a case is an asset search to see if the defendant would be worth pursuing. If the person immediately responsible for the loss or injury does not have the ability to pay, the attorney will search for a deep-pocketed defendant and a theory of liability that can be developed against him or her. In this search, the right candidate will have substantial personal/business assets available for seizure and/or significant insurance coverage.

The success of the trial attorney is dependent upon his or her ability to find a defendant (or defendants) who can pay and then construct a theory of liability, showing why that defendant should be held responsible. Trial attorneys make up one of the largest lobbyist groups in the country and have created laws to increase the level of vicarious liability. Vicarious liability means you can be held responsible for the actions of others. Trial attorneys have worked hard to ensure that whoever has the money can be held responsible for negative outcomes through vicarious liability, even if they committed no wrong.

There are nearly one million attorneys in America, and 100,000 new attorneys graduate from law school each year. There are not enough good cases to support this workforce of attorneys; in order to stay in business, they have to find people with assets to sue. An attorney for an injured party will attempt to show that the person with assets is legally responsible to pay damages even though they have no direct connection to the injury or loss. If you have assets that can be seized through a judgment, you are a potential target for these trial attorneys. Many attorneys will even pursue a bad case if they can find a defendant with the ability to pay. They hope that they can obtain a settlement or convince the jury to award cash to the injured, needy plaintiff from the comparatively wealthy defendant. A good trial attorney can often win over a jury with emotion, irrational arguments, and false information.

A study was done to determine how effective people were in distinguishing a witness that was telling the truth from a witness that was telling a lie. The majority of the time the subjects in the experiment identified the truth as a lie and the lie as the truth. This study has significant implication to the court room. Based on these findings, there is greater probability of the jury believing a lie than believing the truth. Every day we see trial attorneys winning cases that appear to be irrational, absurd, and without merit.

Legal Extortion

Attorneys know that even if you fight a case and win in court, you still lose because it will cost you thousands of dollars in legal fees to defend yourself. The trial will cost time and cause mental and emotional strain. Your privacy and reputation can be damaged, and the uncertainty of the outcome can result in a high degree of stress and anxiety.

An attorney can exploit all of these factors when he sues you. The attorney knows that you may be willing to settle the case—even if the case holds no merit—just to have it behind you. If you have available and reachable assets, the attorney knows he has leverage to get you to settle. Many attorneys make a living collecting settlement after settlement from innocent defendants (victims). This is what we call legal extortion.

Sources of Lawsuits

If you have available and reachable assets, it is not a matter of if you will be sued, but when. The following are a few examples of potential lawsuits.

Premise Liability

Last year, premise-liability cases produced a mean award of $2,001,754—and an award of $2.5 million or more is just as likely as an award of $50,000-$99,999.[2] If someone was to slip and fall and sustain an injury at your home, office, or any other property you may own, you could be sued and held liable for damages. One of our speakers was once discussing premise liability and asked if anyone had heard the term, “attractive nuisance.” A man from the audience answered, “My ex-wife.” In reality, “attractive nuisance” is a legal term used to describe any potentially-dangerous item on your property, such as a trampoline, swing set, or even a tree that could be climbed. If someone were to come on your property (even a trespasser) and sustain injury on your trampoline or fall from one of your trees, you as the property owner would be held liable.

For example:

- A water park was held liable for $1.1 million when a man slipped on wet steps at the park.[3]
- Franco DeMeglio was held liable for $850,000 when a trespasser on his property was bitten by his dog.[4]
- A ranch owner had a judgment awarded against him for $20 million after a ranch employee, while hunting on the property, accidentally shot and killed a trespasser.[5]

Car Accident

Last year, the average award in a motor-vehicle case was just under $1 million.[6] If you are in a car accident, you could be held liable for millions of dollars; if you are an employer and one of your employees gets in an accident while running to the post office or picking up lunch for the office, you as the business owner will be held liable. Car accidents can result in multimillion dollar judgments.

For example:

- A jury awarded Patricia Marcoux $4.2 million[7] and Kia Smack $6.6 million[8] for injuries sustained in car accidents.
- The family of Michael Mazurek was awarded $13 million from a company whose employee hit Michael while he was riding a bicycle.[9]
- An employer was held liable for $55 million for injuries caused to Jerry Stanton during a car accident. On appeal, the award was upheld as non-excessive, in spite of the fact that prior to this case all similar injuries had resulted in jury awards of between $3 and $7 million.[10]

Insufficient Security

Trial attorneys have successfully lobbied for new laws imposing a duty on property owners to provide security so that if anything happens on the property, they can hold the owner liable due to insufficient security.

For example:

- A grocery store owner was held liable for the wrongful death of a seventy-nine-year-old woman abducted from his parking lot. Even though no crime of this sort had ever occurred in the area, the Supreme Court of New Jersey held the store owner liable, stating that the store owner should have had security patrolling the parking lot.[11] Last year, the average wrongful death award was $11,804,650.[12]
- The wife and estate of a man who was shot and killed in front of a movie house were awarded $6.6 million, claiming insufficient security at the mall where the theatre was located.[13]

Product Liability

If you produce or sell a product, you could potentially be held liable for damages caused by the product.

For example:

- A restaurant was held liable for $4 million for a bloody bandage that accidentally fell into the food of 14-year old Anastasia Roberts.[14]
- A business owner was deemed responsible for $8.6 million when his product injured a school child.[15]

Employee Liability

If you have employees, you could be sued for wrongful termination, workplace accidents, negligent entrustment, gender bias, racial bias, sexual orientation bias, religious bias, sexual harassment, and racial harassment.

For example:

- A hotel was held responsible for a $4.1 million judgment for wrongful termination.[16]
- A former employee was awarded $2.2 million for her claim that the vice president in charge of the office gave females fewer accounts, offered them lower starting salaries and was less likely to promote them.[17]
- A business was ordered to pay $86.7 million to an employee paralyzed from a fall at work.[18]

- A church was hit with a $1.2 million verdict for negligent mowing when an employee accidently cut off his son's foot while mowing the church's grass.[19]
- A company was still held liable for over $1 million for racial jokes told by employees in front of one of their African American workers, even though the company had written policy and training to prevent racial harassment. Even though there was testimony that the plaintiff laughed along with the rest of the employees and, at times, even gave some racial retorts, the company was still held liable for racial harassment.[20]

Violations of Americans with Disabilities Act

Complying with the Americans with Disabilities Act can cost a business hundreds of thousands of dollars, and lawsuits for violations can cost millions.[21]

Landlord Liability

If you have a rental property, you have numerous potential liabilities—premise liability, mold contamination, negligent security, etc.

For example:

- The parents of a two-year-old boy who sustained second- and third-degree burns after coming into contact with the radiator in their apartment settled with the landlord for $1.3 million.[22]

Medical Malpractice

Many malpractice judgments are exceeding doctors' liability insurance coverage. Last year, 64% of medical malpractice verdicts exceeded $1 million, and 23% exceeded $5 million, with the average medical malpractice award being $5,051,428.[23]

Every year, thousands of professionals are sued. Some survive these lawsuits; however, many do not. Some lose everything, including their home, businesses, and savings. It is a tragedy to see people left bankrupt as a result of a lawsuit. Many professionals have been held personally liable for millions after a judgment in excess of their insurance or because of an exclusion in their policy. Are your personal and business assets protected should there be a judgment that exceeds your insurance coverage?

The tragic lose of assets in a lawsuit can be avoided if your assets are structured properly. Once your assets are structured properly, you will have the peace of mind that comes from knowing that your personal and professional assets are safe and unreachable to judgment creditors.

Preventing Lawsuits

All your professional and personal assets can be moved into properly-drafted legal entities to ensure they are 100% unreachable to would-be plaintiffs and attorneys. If an attorney does an asset search on you and/or your business in conjunction with a potential lawsuit, he will find that there are no assets available to seize. Since most lawsuits are done on contingency and attorneys want to make sure that they get paid for their efforts, they will not be willing to file a lawsuit against you. Placing your assets into properly-drafted legal entities removes the financial incentive for prosecuting attorneys and, thus, prevents lawsuits.

The Right Legal Structure for Your Assets

Many advisors recommend their clients operate as a sole proprietorship because of the simplicity—you simply have to report the business on Schedule C of your tax return. There are two major problems with operating as a sole proprietorship. First, while a sole proprietorship allows a person to deduct most business expenses, there are tax deductions and tax reduction strategies that apply to S corporations and C corporations that can’t be used by a sole proprietor. The second major problem is liability. A sole proprietorship provides zero protection against lawsuits. If your business as a sole proprietorship is sued, all of your business and personal assets can be taken. If you are sued personally as a result of a car accident or injury at your home, all your personal and business assets can be taken. A sole proprietorship puts all of your professional assets (real estate, equipment, cash, etc.) and personal assets (cash, stocks, home, furniture, cars, etc.) at risk of being seized to satisfy a judgment.

Because of the problems associated with sole proprietorships, many choose instead to incorporate their businesses. While the corporation is a good management and tax-reduction tool, it is a poor lawsuit-protection tool, in most cases. If your corporation is sued, all of the assets owned by your corporation can be taken to satisfy the judgment. The corporation does provide some protection of personal assets with what is called the corporate veil. The corporate veil is supposed to prevent a creditor from going after personal assets to satisfy a business debt. However, the corporate veil can be pierced, enabling your personal assets to be seized to satisfy a judgment against your business.

If you own assets in your personal name, as a sole proprietor or in a corporation, the assets can be taken to satisfy a judgment. The good news is that there are legal entities you can use to protect 100% of your professional and personal assets from be taken to satisfy a judgment. Those tools are the carefully-constructed and properly-worded family limited partnership (FLP) and/or Limited Liability Company (LLC). The FLP and LLC can also prevent lawsuits by making you so unattractive to a plaintiff's attorney that they will never pursue a lawsuit against you. Specialized attorneys have retooled the FLP and LLC to include lawsuit protection principles. With almost ninety years of case law surrounding it, the FLP has emerged as a tremendously-powerful tool to hold assets to protect them against lawsuits; and the LLC is an ideal tool to protect real estate and other high-risk assets. Once your assets are properly structured, you will have the financial peace of mind that comes from knowing you are protecting the assets you have worked a lifetime to secure.

Separating Assets

One of the key principles of lawsuit protection is to place your assets into separate legal entities. When doing so, it is important to understand the distinction between safe assets and unsafe assets. A safe asset is an asset that will not trigger a lawsuit, such as artwork, gold, stocks, jewelry, and savings accounts. An unsafe asset is an asset that can cause a lawsuit, such as a business, real estate, or car.

It is important to keep your unsafe assets in entities isolated from your other assets so that if an unsafe asset creates a lawsuit, it will be limited to that asset and not affect your other assets. For example, rental property is considered an unsafe asset: it could be sued for premise liability should someone get injured on the property. If you owned multiple rental properties in your name, held your assets in your name, and someone were to slip and fall at one of the rental properties, all of the rental properties and all your personal assets could be taken to satisfy a judgment against one property. Likewise, if you were to own multiple properties in one LLC, the lawsuit at one property also effects the other properties in the LLC.

The best approach for an unsafe asset, such as a rental property, is to own each property in its own entity. Generally, the LLC is the proper way to hold unsafe assets, since no individual member or manager of an LLC can be sued for an LLC-related obligation. This limits the liability and risk of an unsafe asset to the one property. If you own a number of unsafe assets, each should be placed in a separate entity. If you own ten rental properties, for instance, you would want to consider owning each property with a separate LLC. If someone were to slip and fall at one property and sue, your other properties and assets would be unreachable because they are in separate legal entities. Only the LLC that owns the property involved in the lawsuit would be affected. There would be no spillover effect to your other assets. The other properties and family assets would be safely insulated and shielded from liability under this arrangement.

Your business real estate (office building, hotel, restaurant, medical office, etc.) is another example of a dangerous asset, one which should be separate from your others assets. For example, a physician that owns his medical building should not own the building within his professional corporation. A physician's practice and the building are both unsafe assets, and you do not want a suit against the building to have claim on the practice, nor a suit against the practice to have claim on the building. The medical building should be separated from the medical practice, in a separate LLC.

To protect your business assets, you need to have a corporation or LLC to operate your business, but your corporation or LLC should not own assets. You should have limited partnerships or LLCs own the business assets (real estate, equipment, etc.) and then have the limited partnerships or LLCs lease the assets to your business. Trademarks, patents, and copyrights are also valuable assets, which should not be owned directly by the operating entity. A separate company can own these assets and make them available through a licensing agreement. The objective is to protect these assets in the event of a judgment against the corporation. If your business is sued, there will be no assets for them to take, since the corporation or LLC owns nothing. This is also a deterrent from lawsuits being filed against the business because there are no assets to seize from the business. Should a suit still be filed against your company and a large judgment awarded, you would be able to have the corporation declare bankruptcy and eliminate the pending judgment without losing any assets, since the corporation owns nothing. You could then form a new company, which could operate under the same name by licensing the trade name and other trademarks that were safely protected in other entities; and the new company could then also lease the building, equipment, and other assets and continue business as usual.

If you have multiple locations or product lines, you may want to set up each in a separate entity. For example, if you owned three restaurants or retail stores and each were held separately and one were to falter financially, that one location could be closed without being a financial drain on the other two, profitable stores. Another example of this approach would be a taxi cab company that holds each taxi cab in a separate legal entity so that an accident by one cab driver is limited to that cab and does not expose the other taxi cabs to the risk of being lost.

All of your safe assets (cash, gold, art, etc.) can be put into one uniquely-drafted family limited partnership (FLP), and they are one hundred percent protected. Since safe assets do not trigger lawsuits, you can put millions, or even billions, of safe assets into the same limited partnership. If a lawsuit is filed against your business or against you as a result of a car accident, your safe assets are unreachable because they are in a separate legal entity.

Protecting Your Home

Homestead laws have been created by states to protect personal homes against creditors. These laws vary widely between the states with some providing almost unlimited protection and others providing no protection or the protection of only a few thousand dollars. There are six states (Florida, Iowa, Kansas, Oklahoma, South Dakota, and Texas) that have a no dollar cap on the homestead exemption, which means that your primary home in these six states, regardless of value, cannot be taken by a judgment creditor and is thus protected from lawsuits by state law. In the other forty-four states with limited homestead protection, you may want to put your home into a separate legal entity to protect it against a lawsuit if the equity in your home exceeds the amount protected by homestead law. For example, if you have $200,000 equity in your home and your state's homestead laws only protects $5,000, a creditor could take your home to satisfy a judgment. Homestead laws are only for your primary residence, so vacation or second homes are not protected by homestead laws. Also, homestead laws do not protect you against federal tax liens.

What Can Happen if Your Home is Not Protected?

If someone were to obtain a judgment against you, they can seek to satisfy the judgment by taking your home. The collection process begins by the creditor filing a summary of the judgment (Abstract of Judgment) with the county recorder in the county where you own the property. Just as you cannot sell your property without satisfying liens from a mortgage or deed of trust, you cannot sell or refinance your home until the judgment is paid or expires.

The creditor can also file a Writ of Execution with the county recorder for the right to sell your home to the highest bidder at a public sale. The money collected from the sale of the property is used to pay the judgment and any interest and collection expenses. If the property sells for more than the amount of the judgment, interest, and collection cost, the excess is given to you.

Summary of Homestead Laws by State

Amount of Primary Residence Protected by State Homestead Law*

State	Maximum Value
Alabama	$5,000
Alaska	$67,500
Arizona	$150,000
Arkansas	$2,500
California	$50,000 for single; $75,000 for head of household; $150,000 for disabled or over 65
Colorado	$45,000
Connecticut	$75,000
Delaware	$50,000
Florida	No limit
Georgia	$10,000 for single; $20,000 for married
Hawaii	$20,000; $30,000 for head of household or over 65
Idaho	$100,000
Illinois	$15,000
Indiana	$15,000
Iowa	No limit for 40 acres rural and 0.5 acre urban
Kansas	No limit for 160 acres rural and 1 acre urban
Kentucky	$5,000
Louisiana	$25,000
Maine	$35,000; $70,000 for those with minor dependents
Maryland	$0
Massachusetts	$500,000
Michigan	$30,000; $45,000 for disabled or over 65
Minnesota	$750,000 rural up to 160 acres and $300,000 urban
Mississippi	$75,000 for up to 160 acres
Missouri	$15,000
Montana	$250,000
Nebraska	$12,500 for only head of household
Nevada	$350,000
New Hampshire	$100,000
New Jersey	$0

New Mexico	$60,000
New York	$75,000-$150,000 depending on county
North Carolina	$18,500 for single; $37,000 for married
North Dakota	$80,000
Ohio	$5,000
Oklahoma	No limit for 160 acres rural and 1 acre urban
Oregon	$39,600
Pennsylvania	$0
Rhode Island	$300,000
South Carolina	$50,000 per owner with $100,000 maximum; adjusted each year for inflation
South Dakota	No limit for 160 acres rural and 1 acre urban
Tennessee	$7,500-$25,000
Texas	No limit on 100 acres if single and no limit on 200 acres for family for rural; no limit on 10 acres for urban
Utah	$20,000 for single; $40,000 for married
Vermont	$75,000
Virginia	$5,000
Washington	$125,000
West Virginia	$25,000
Wisconsin	$40,000
Wyoming	$20,000

*Note that state laws can change, affecting the accuracy of this chart information.

Overview of Tax Reduction

"Over and over again, courts have said that there is nothing sinister in arranging one's affairs as to keep taxes as low as possible. For nobody owes any public duty to pay more than the law demands."

-Judge Learned Hand

Billions of dollars are overpaid each year in taxes as a result of people not using all the deductions and tax laws available. According to the IRS Commissioner, millions of taxpayers are overpaying their taxes. Americans pay more in taxes each year than they spend on food, clothing, and housing combined, so reducing your taxes to the legal minimum can greatly increase your ability to build wealth. Judge Learned Hand said, "Anyone may so arrange his affairs that his taxes shall be as low as possible; he is not bound to choose that pattern which will best pay the treasury; there is not even a patriotic duty to increase one's taxes." Supreme Court Justice Sutherland declared, "The legal right of a taxpayer to decrease his taxes or to altogether avoid them by means which the law permits cannot be doubted."[24]

You can use legal entities to structure your assets and income in such a way as to reduce your taxes to the legal minimum, thereby saving you thousands of dollars each year. Such entities allow you to reduce your taxes by enabling you to maximize deductions, create non-taxable income, spread income across multiple entities, and defer income to a new tax year. For some, charitable entities (Charitable Remainder Trust, Non-Profit Corporations, and Family Foundations) can also be used to reduce taxes. While we won't discuss in this book every tax reduction strategy, below are a few techniques to illustrate strategies you can use to minimize taxes.

Minimize Social Security and Medicare Taxes

For sole proprietors, all profit (up to the taxable maximum) is subject to Social Security and Medicare taxes. In an S corporation, profits are distributed through a K-1 and are not subject to Social Security and Medicare taxes. Having your profits flow to you as K-1 income, instead of as profit from a sole proprietorship, could save you thousands each year in Social Security and Medicare taxes.

Maximize Medical Deductions

Within a sole proprietorship or an S corporation, there is a limit on the medical expenses you can deduct. With the right provisions in a C corporation, you can deduct all medical insurance premiums and out-of-pocket medical expenses.

Home Office Deductions

If you use a portion of your home for business, you may be able to take a home office deduction.

Create Non-Taxable Income

The IRS allows you to rent out your home for up to fourteen days each year without having to declare the rent as income. This is one strategy you can use to create non-taxable income. When a business partner or client comes into town and stays at your home, you can charge your corporation rent for the room. You can also have a company party or trainings at your home and rent your home to your corporation for the day. The corporation deducts the rental expense, and you enjoy the rental income tax free.

Spread Income to a C Corporation

If you are in a federal tax bracket higher than 15%, you may be able to reduce your taxes by setting up a Nevada C corporation and have up to $50,000 of your income flow to this corporation, which has no state income tax and has a federal tax rate of 15% on the first $50,000 of taxable income. Your corporation can retain these earning so you are not double taxed. This is one strategy you can use to spread income. If you had a personal marginal federal income tax rate of 28% and a state income tax rate of 7%, you would pay $17,500 in federal and state income tax on that $50,000. If, however, this $50,000 flowed to a Nevada C corporation, you may only pay the federal corporate tax rate of 15% (depending on the activity of the corporation), or $7,500, saving you $10,000 in taxes.

Spread Income to Children in Lower Tax Bracket

Instead of paying your children’s expenses directly with after-tax dollars, hire your children and pay them for the work they do and have your children pay for their own clothes, food, school, etc. from the money they earn. You can deduct the wages as a business expense, and your children will pay taxes at their lower tax bracket.

Defer Income with Contributions to a Retirement Plan

One way the IRS allows you to defer income is by contributing to a retirement plan. A retirement plan that works well for a business with no employees (you may have another business with employees) is a Simplified Employee Pension Individual Retirement Account (SEP IRA). The IRS allows you to contribute 18.58% of net profit (maximum of $45,000 per year) to your SEP IRA for retirement. If you have $100,000 net profit in your business, you would be able to contribute up to 18.587%, or $18,587, to your retirement account. You would get to deduct the contribution, saving you thousands in federal and states taxes. Thus, money goes into your SEP IRA tax-free and grows tax-free. SEP IRA funds are taxed at ordinary income tax rates when qualified withdrawals are taken after 59.5 years of age.

Capital Gains Tax

Defer Capital Gains Taxes on Real Estate with 1031 Exchange

Whenever you sell a business or investment property and you have a gain, you generally have to pay tax on the gain at the time of sale. Internal Revenue Code Section 1031 provides an exception and allows you to postpone paying tax on the gain if you reinvest the proceeds in similar property as part of a qualifying like-kind exchange. Gain deferred in a like-kind exchange under IRC Section 1031 is tax-deferred.

Give Appreciated Assets to Charity

Smart taxpayers do not give cash to charity if they have appreciated stocks or securities they could give instead. You can give an appreciated asset to charity and not have to pay any tax on the appreciation, and you get to deduct the full fair-market value of the assets given to charity. For example, let's say you bought 1,000 shares of stock for $10 a share for a total cost of $10,000, and the stock appreciated to $20 a share. If you sold the stock at $20, you would have a capital gains tax on the $10,000 appreciation of the stock. If you were to give the 1,000 shares to charity, you would not have to pay capital gain tax on the $10,000 appreciation, and you can deduct the full value of the stock ($20,000) as a charitable donation.

Eliminate Capital Gains Taxes with a Charitable Remainder Trust (CRT)

The charitable remainder trust (CRT) is not a strategy that will work for everyone, but, to those for whom it is appropriate, it can be a very powerful tool. If you have a highly appreciated asset (such as real estate, stocks, or business) that you do not want to pay capital gains tax on, you first transfer the asset to the CRT. Then you have the CRT sell the asset. The CRT is recognized by the IRS as a charitable organization, so the CRT is not required to pay capital gains tax on the sale of the asset. You will receive a charitable tax deduction for your contribution of the asset to the CRT, which will reduce your income taxes. Now you can receive income from the CRT each month for the rest of your life. The CRT is a charity, so the assets remaining in the CRT are designated to go to a charity upon your death; or if you are married, the assets go to the charity upon the death of you and your spouse. If you wish to still have the assets go to your family to manage upon your death, you can set up a Family Foundation and designate this family charity as the beneficiary of your CRT.

Overview of Estate Planning

"Planning is as natural to the process of success as its absence is to the process of failure."

-Robin Sieger

The vast majority of Americans do not have an estate plan, and many of those who do have an incomplete or ineffective one. Up to 50% of your estate could be lost to probate costs, federal estate taxes and state inheritance taxes if you do not have an effective estate plan. By utilizing a few legal documents, you can set up your succession plan, avoid probate, and eliminate or dramatically reduce your estate taxes.

What is Probate?

Probate is the legal process by which a court distributes the assets of a deceased person according to the deceased's will and/or state laws. The court determines the validity of the will and resolves all claims from creditors and competing claims from heirs.

Steps of Probate

1. An executor is appointed to administer the estate. If there is a will, the will typically names who is to be the executor. If there is no will or no executor named in the will, the executor is appointed by the court.
2. The court determines the validity of the will according to state law. It is important to follow state requirements for signatures, witnesses, and notaries to ensure your will is valid.
3. The assets of the deceased are identified and inventoried.
4. The value of the assets is determined.
5. The deceased's debts and taxes are paid.
6. The remaining assets are distributed according to the deceased's will or, if there is no will, the assets are distributed according to state law.

Why Do You Want Your Estate to Avoid Probate?

1. It is expensive.

Up to ten percent of your estate can be lost to probate costs alone. Costs may include court fees, legal fees to the executor of the estate, appraisals, legal fees to resolve disputes, and accounting services.

2. It is a lengthy process.

While it is possible for an estate to be probated in six to twelve months, it is not uncommon for the probate process to extend to one to three years before the estate is settled.

3. It is an invasion of privacy.

Your entire estate will become a matter of public record during the probate process. Anyone can go to the courthouse and find out what assets are in the estate, their value, and to whom the assets are to be distributed. There are many dishonest people who research the probate records to find ways to take the assets of the deceased. Others seek to take advantage of an heir by having them invest in some scheme or any number of cons.

Why Some Attorneys Recommend a Will

Many attorneys recommend their clients create a will without a living trust, which ensures the estate will go through probate. Why? Because attorneys do not always have their clients' best interest in mind. The attorney wants to collect the legal fees associated with probate, and, in some states, the attorney receives a percentage of all the assets that go through probate. Probate is time consuming, costly, and public. The only person that benefits from your estate going through probate is the attorney.

Problems with Using Joint Ownership to Transfer Assets at Death

You can avoid probate by holding assets in joint ownership, but there are several problems with this approach. For example, a couple had built a farm worth several million dollars. They were told by an estate planner to own the farm in joint ownership with their four children to avoid probate. A few years later the parents and one of the children were killed in a car accident. As a result of joint ownership, the farm did avoid probate with the three surviving children as joint owners. Since the assets went to the surviving joint owners, the spouse and children of the child that died were totally disinherited and they received nothing. In addition, whichever of the surviving three children who outlives the other two children will end up with 100% ownership in the farm; and the descendants of the other three children will be excluded. Even if there is a will which designates who is to receive the property, in almost every instance, property held in joint ownership goes to the surviving joint owner(s).

The following is another scenario that shows the dangers of joint ownership and using a will as your estate plan. A couple, Ed and Mary, had three children when Mary died. Ed eventually remarried and had a fourth child, Tom, with his second wife. Ed had a will that specified his wishes for his estate to go equally to his four children. However, all of Ed’s assets were owned in joint ownership with his second wife, so all the assets went to her on his death. Upon Ed’s death, the second wife, as the joint owner, became the sole owner of the complete estate and instituted a plan to have all the assets go to her only child (Tom) on her death, completely excluding Ed’s other three children. Ed’s wishes in his will for his assets to go equally to all four of his children went tragically unfulfilled.

Living Trust

A revocable living trust enables you to avoid probate, keep your estate private, and reduce or eliminate estate taxes, as well as ensures your assets quickly transfer according to your wishes upon your death. With a revocable living trust, no court action is involved, and the property is distributed privately. Setting up and funding a revocable living trust enables you to effectively pass your assets to your heirs, and it is one of the most loving things you can do for your family.

Legal Tools

Family Limited Partnership (FLP)

The family limited partnership, created in 1916, has many unique attributes that are beneficial for both lawsuit protection and estate planning. With almost a century of case law surrounding it, the FLP has emerged as a tremendously powerful tool to protect real estate, equipment, bank accounts, and other assets against lawsuits. It also prevents lawsuits by making one so unattractive to a plaintiff's attorney that he/she will choose not to pursue a lawsuit. In some situations (such as multiple rental properties), an LLC or single-member LLC will be used in conjunction with FLPs as part of one's overall asset protection plan to hold certain assets for lawsuit protection.

FLPs are structured somewhat like a family business, with one or more general partners controlling the partnership. The "limited partners" have no control whatsoever. They receive income, which is determined and distributed by the general partner(s). The FLP is a pass-through entity, so it does not pay taxes.

Not all FLPs are created the same, however. Specialized attorneys have retooled the FLP to include lawsuit protection principles. Once your assets are properly structured in this way, you will have the financial peace of mind that comes from knowing you are protected from losing the assets you have worked a lifetime to secure.

If a lawsuit is filed against an individual who owns assets in his/her name and the plaintiff wins, the judge would issue a "turnover order," in which non-exempt property, including the person's home, cars, stocks, bonds, bank accounts, etc., could be turned over to the plaintiff to satisfy the judgment. However, if all of the person's property is held within carefully-drafted asset-protection FLPs, the law in all fifty states absolutely prohibits any of that property from being seized, sold, or turned over. In fact, the terms of carefully-drafted asset protection FLPs give plaintiffs only one remedy to collect on their judgment: the "charging order." This means that a plaintiff's only right is to receive distributions from the family limited partnership.

Asset-protection FLPs contain a clause that enables the general partner to distribute income on a non-pro-rata basis, which means they can distribute income to themselves and other limited partners. They also have the ability to exclude distributions to the judgment creditor. As a result, the judgment creditor would receive no assets and no income; and because of the IRS

Revenue Ruling 77-137, the judgment creditor who obtains a charging order against an FLP is required to pay taxes on “phantom income,” which is the income of the FLP, even if the plaintiff does not receive the income. The result is that the plaintiff does not obtain any assets or income, but is liable for taxes on the income they will never receive. Therefore, the disclosure of properly-drafted FLPs to a prosecuting attorney is a great deterrent to the filing of a lawsuit. Since many lawsuits are taken on a contingency basis, placing your assets into properly-drafted legal entities removes the financial incentive for prosecuting attorneys.

Why Does the Charging Order Law Exist?

After teaching people about the family limited partnership and the power of the charging order, we often hear the comment, “This sounds too good to be true.” So why does the charging order law exist?

When two or more people desire to work together for a business purpose, they often form what is called a general partnership. This can be a written or oral agreement between the partners or can be an implied general partnership based on the working relationship. The general partnership is a common form of business because it is the default partnership arrangement and requires no state filings or paperwork.

A general partnership is a very dangerous way to conduct business because of the unlimited liability of the partners. For example, if two or more doctors opened a practice together as general partners, each doctor would be personally liable for his own actions and would also be liable for the negligence or malpractice of the other doctors in the partnership. If one doctor was sued and the plaintiff won a $10 million judgment against him or her, the plaintiff creditor could take assets from all of the doctors in the general partnership to satisfy the judgment.

Also, in a general partnership, any one partner can enter into contracts binding on the general partnership and the other partners are personally liable for the terms of the contract, even if they had no knowledge of the contract and did not authorize the action. For example, Dr. William is one of two doctors in a medical general partnership, and his partner took a million-dollar loan on behalf of the general partnership without Dr. William’s knowledge and without his approval. When Dr. William’s partner was unable to repay the loan, Dr. William was 100% responsible to repay the million-dollar loan.

Under the terms of a general partnership, the assets of the partnership can also be taken to satisfy the non-partnership debts of one of the partners. For example, if one partner was sued for an accident at his home, the judgment creditor could obtain a Writ of Execution to seize the assets of the general partnership to satisfy the judgment, regardless of the fact that the partnership had no involvement or liability in the case.

The results of unlimited liability of all the partners in a general partnership has resulted in businesses being destroyed and significant economic injustice to non-debt partners as their portion of assets were seized to satisfy one partner's debt. The unlimited liability of the partners on behalf of the general partnership and other partners was detrimental to the formation of partnerships, so every state enacted legislation allowing the formation of a type of partnership known as a limited partnership.

Under the terms of a limited partnership, a creditor with a judgment against a partner, but not against the partnership, cannot seize the partnership assets as he could under the terms of a general partnership. Thus, a limited partnership limits the liability of the partners. Instead of being allowed to seize assets, the law only allows the creditor to obtain a charging order, which affects only the actual distributions made from the partnership to the debtor partner. The business of the partnership is allowed to continue unimpeded, and the assets and distribution of the non-debtor partner(s) is not affected.

The protection of assets in a family limited partnership is not the result of a loophole or a twisting of the law. The laws preventing a creditor from taking assets from a limited partnership are well established and have decades of precedence with the courts upholding these asset-protecting provisions. Having an available alternative to general partnerships is desirable and necessary and was created for the very purpose of limited liability, so it is very unlikely that laws would ever be changed to eliminate the asset-protection provisions of the charging order.

Do Some States Protect Better than Others?

The charging order language in the family limited partnership and LLC legal documents is the same for each state, and the charging order does provide protection in every state; however, the language of the state statute regarding charging orders is better in some states than others. For this reason, we suggest Alaska FLPs and LLCs. Alaska's state statute says the charging order is the sole remedy, and then proceeds to explicitly preclude any other actions, such as foreclosure, receiver accounting, etc. As a result, Alaska's charging order limits creditors more than any other. In addition, Alaska has case law to back up the drafting. Other states with solid statutes include South Dakota, Florida (FLP only), Texas, Maine (LLC only), Wyoming (LLC only), and the recently-revised Nevada FLP and LLC statutes.

Limited Liability Company (LLC)

A limited liability company (LLC) is a form of business that blends elements of the limited partnership and corporate structures. The LLC can be a great tool for insulating unsafe assets and operating a business, while also maintaining some financial privacy. The LLC is a relatively new business entity. Wyoming was the first state to create LLC legislation in 1977. In 1982, Florida adopted an LLC act modeled after Wyoming's LLC Act. Due to uncertainty over the tax treatment of LLCs, no other states introduced LLC legislation until after 1988. In 1988, the IRS issued a revenue ruling stating that it would treat a Wyoming-style LLC as a partnership for tax purposes. By 1996, nearly every state had enacted an LLC statute. While the LLC does not have as much case law and supporting history as the family limited partnership, it is now recognized in all fifty states with well-established case law and statutes.

One reason the LLC was created was to limit liability of the owners and officers of the company as a result of the failure of corporations to do so. The corporation has what is called a corporate veil, originally designed to protect owners and officers in the corporation from losing personal assets for a claim against the business. Unfortunately, the corporate veil can be easily pierced and personal assets seized. For example, if the formalities of corporate minutes and meetings are not followed, owners and officers' personal assets could be pursued and seized as a result of a claim against the business. Also, in a lawsuit against a corporation, most attorneys routinely name the owners and officers as defendants in the lawsuit, eliminating the protection of the corporate veil since the suit is also against them personally.

To solve these problems, the LLC laws specifically prohibit a lawsuit against the owners (called members) and managers of the LLC for a claim against the business. The LLC shields the owners and managers from personal liability for a lawsuit or debt of the business. It also shields the LLC from the personal debt and liability of the owners. The LLC law also states that this limited liability of the owners and managers is to be enforced, even if the company formalities of minutes and meetings are not followed. The LLC allows the owners to adopt flexible rules regarding the maintenance, administration, and operations of the company.

An LLC provides a great deal of flexibility in regards to taxation. An LLC can elect to be taxed as a sole proprietor, partnership, S corporation or C corporation. If the LLC has only a single member, the owner can elect to treat it for income tax purposes as a "disregarded entity." As a disregarded entity, you do not have to file any tax returns for the LLC. The income and expenses are reported as a sole proprietorship on the personal return.

The name(s) of the owner(s) of the LLC are not required when filing the articles of organization, so the LLC allows some degree of anonymous ownership of business interest and property.

Professional Limited Liability Company (PLLC)

Trial attorneys have strongly opposed the use of LLCs by licensed professionals, such as doctors, accountants, architect, and engineers. As a result, state laws do not allow licensed professionals to operate their professional practices as an LLC. Some states have adopted and allow licensed professionals to operate as a Professional Limited Liability Company (PLLC). While the PLLC can be used by a professional to isolate himself from the liability of other partners, it does not limit his personal liability for malpractice. In other words, even with a PLLC, all of the assets held in your name can be taken to satisfy a judgment against you for malpractice. Thus, it is very important for professionals to have practice assets (building, equipment, etc.) and personal assets (home, cash, art, stocks, etc.) in LLCs and/or FLPs, so in the event of a malpractice lawsuit, your business and personal assets will be protected from seizure and unaffected by the lawsuit.

Charging Order Protection

A properly-drafted and -worded LLC can provide the same charging order protection that exists in a family limited partnership. If a lawsuit is filed against an individual who owns assets in his/her name and the plaintiff wins, the judge would issue a “turnover order,” in which non-exempt property, including the person’s home, cars, stocks, bonds, bank accounts, etc., could be turned over to the plaintiff to satisfy the judgment. However, if a person’s property is held within carefully-drafted asset-protection LLCs, the law prohibits any of that property from being seized, sold, or turned over. In fact, the terms of carefully-drafted asset protection LLCs give plaintiffs only one remedy to collect on their judgment: the “charging order.” This means that a plaintiff’s only right is to receive income distributions from the LLC.

Asset-protection LLCs contain a clause that enables distribution of income on a non-pro-rata basis, which means they can distribute income to themselves and other limited partners while excluding distributions to the judgment creditor. As a result, the judgment creditor would receive no assets and no income; and because of the IRS Revenue Ruling 77-137, the judgment creditor who obtains a charging order against a LLC is required to pay taxes on “phantom income,” which is the income of the LLC, even if the plaintiff does not receive the income. The result is that the plaintiff does not obtain any assets or income, but is liable for taxes on the income they will never receive. Therefore, the disclosure of properly-drafted LLCs to a prosecuting attorney is a great deterrent to the filing of a lawsuit. Since many of the lawsuits today are taken on a contingency basis, an asset search is one of the first things an attorney does before accepting a case. Placing your assets into properly-drafted legal entities removes the financial incentive for prosecuting attorneys.

Do Some States Protect Better than Others?

The charging order language in the family limited partnership and LLC document are the same for each state, and the charging order does provide protection in every state. However, the language of the state statute regarding charging orders is better in some states than others. For this reason we suggest Alaska FLPs and LLCs. Alaska's state statue says the charging order is the sole remedy, and then proceeds to explicitly preclude any other actions, such as foreclosure, receiver accounting, etc. As a result, Alaska's charging order limits creditors more than any other. In addition, Alaska has case law to back up the drafting. Other states with solid statutes include South Dakota, Florida (FLP only), Texas, Maine (LLC only), Wyoming (LLC only), and the recently revised Nevada FLP and LLC statutes.

Corporations

A corporation is a legal entity, allowable by law in all fifty states. As a separate legal entity, a corporation can own property, open bank accounts, and perform business activities in its own name. A corporation is formed by filing the Articles of Incorporation with the Secretary of State in the state one wishes to incorporate. One of the unique features of a corporation is that it is owned by shareholders. On creation, the corporation issues shares of stock to the owners. These shares give owners the right to vote on the management and operations of the corporation. It is allowable to have one person own all the stock of a corporation, act as the sole director, and hold all the corporate offices (president, secretary, treasurer).

Where to Incorporate

State law requires licensed professionals, such as doctors, accountants, and attorneys, to incorporate their practice in the state in which they operate. Non-professional businesses may incorporate in one state and do business in another. Corporate laws and statues vary from state to state, so there can be advantages to incorporating in certain states. Nevada and Delaware are two states known for their strong corporate legislation, which provides greater lawsuit protection, tax advantages, and privacy to business owners.

Advantages of a Delaware Corporation

Because Delaware's corporate laws provide public corporations with protection and benefits not found in other states, more than half of all publicly traded companies are incorporated in Delaware to provide the best protection and benefits to their shareholders. These statutes include:

1) Corporation shareholders will not be personally liable for debt of the corporation.
2) The corporation can eliminate directors' and shareholders' personal liability for financial damages for breach of duty.
3) The director, officer, employee, or agent of the corporation may be indemnified by the corporation if he or she was acting in good faith and in the best interests of the corporation.
4) Directors can only be held liable if there is gross personal negligence.
5) The corporation is allowed to pay liability insurance premiums for directors and officers.
6) The law regarding corporate takeovers is the strongest in the country.

Advantages of a Nevada Corporation

While Delaware has created corporate laws designed to benefit public corporations, Nevada's corporate laws are designed to benefit private corporations. Advantages of a Nevada corporation include:

1) There is no state corporate income tax.
2) There is no state personal income tax.
3) There is no state franchise tax.
4) Directors and officers can live anywhere in the world.
5) One person can hold all corporate positions.
6) Shareholder names can be kept anonymous and private, and there are minimal reporting and disclosure requirements.
7) State statutes provide better liability protection than any other state for corporate officers and directors.
8) There is no information-sharing agreement with the IRS. Nevada is the only state where this is true.

Lawsuit Protection Provided by a Corporation

While the corporation can be a good management and tax reduction tool, it is a poor lawsuit protection tool. If your corporation is sued, all of the assets owned by your corporation can be taken to satisfy the judgment. For this reason, you want to minimize the assets owned by your corporation. You do not want your corporation to build up sizable assets only to see everything taken in a lawsuit. Assets can be owned by LLCs and family limited partnerships and leased to the corporation. The corporation does provide some protection of personal assets with what is called the corporate veil. The corporate veil is intended to prevent a creditor from going after personal assets to satisfy a business debt. However, the corporate veil is often pierced, enabling personal assets to be seized to satisfy a judgment against your business. For this reason, you should ensure your personal assets are not held in your name, but in family limited partnerships and LLCs.

Types of Corporations

There are four types of corporations: professional corporations, C corporations, S corporations, and non-profit corporations.

Professional Corporation (PC)

Many professionals (doctors, attorneys, engineers, public accountants, etc.) are required by law to incorporate their professional service business as a professional corporation (PC). While the PC can be used by a professional to isolate himself from the labiality of other partners, it does not limit his personal liability for malpractice. In other words, even with a PC, all of the assets held in the PC or in your name can be taken to satisfy a judgment against you for malpractice. Thus, it is very important for professionals to have practice assets (building, equipment, etc.) and personal assets (home, cash, art, stocks, etc.) in LLCs and/or FLPs; in the event of a malpractice lawsuit, your business and personal assets will be protected from seizure and unaffected by the lawsuit.

A professional corporation may elect to be taxed as a C corporation or S corporation. However, a professional corporation taxed as a C corporation does not have the advantage of the graduated corporate federal income tax rate, and it pays a flat rate of 35% federal tax. Salaries are tax-deductible expenses, so professional corporations taxed as C corporations will usually pay all income as salaries (or other benefits) to shareholders, reducing taxable income for the corporation to zero to avoid double taxation. If the professional corporation elects to be taxed as an S corporation, the corporation is not taxed, but is a pass-through entity, with all profits distributed to shareholders. The earnings are reported and taxed on individual returns.

Even if a professional practice must be incorporated as a professional corporation, a professional could also have a C corporation, S corporation, LLCs, and/or family limited partnerships that own the building, equipment, and other assets for lawsuit protection and tax reduction purposes.

C Corporation vs. S Corporation

Federal Taxation

C corporations are taxed entities and must report profits and losses on a corporate tax return. The federal taxes on C corporations are a progressive tax with the tax rate beginning at 15% and going to 35%. The state tax rates on C corporations vary from state to state and range from 0% (Nevada, South Dakota, Washington, and Wyoming) up to 12% (Iowa). The profits of a C corporation are taxed at the federal and state tax rates. If the corporation distributes profits to shareholders through dividends, the shareholders must report this income on their return and pay income tax at their personal tax rates. This is referred to as double taxation, since the profits of the corporation are taxed once at the corporate level and then again on the individual tax returns of the shareholders who received profits from the corporation. C corporations can avoid double taxation by retaining earnings in the C corporation, by expensing out all profit through salaries/benefits to owners, and/or by making payments to other entities you own for consulting, leasing equipment, or licensing intellectually property.

An S corporation is not taxed at the corporation level and is considered a pass-through tax entity. An S corporation must complete an informational tax return each year (1120S Form), and the profits must be distributed to the shareholders (owners). Shareholders will receive a K-1 from the corporation stating their portion of the corporation's profits or losses. Shareholders then report the K-1 income on their individual tax returns, and the income is taxed at their individual tax rates.

With a C corporation, shareholders are unable to report losses of the C corporation on their personal returns to offset other income. With an S corporation, the profit or loss passes through the entity to the shareholders. Should your share of S corporation losses be $10,000, you will receive a K-1 from the S corporation stating K-1 income of -$10,000. Reporting the loss of $10,000 on your personal tax return will reduce your taxable income by up to $10,000. The corporate losses you report on your individual returns cannot exceed the amount you have invested in the company.

Deductions

A C corporation can deduct medical expenses, under Internal Revenue Code Section 105, that are not available to S corporations or sole proprietors.

Stock/Ownership

- Both C corporation and S corporation ownership is held in shares of stock, and ownership is transferred by selling shares of the corporation's stock.
- S corporation stock can only be held by individuals and certain types of trusts and cannot be owned by an LLC, partnerships, corporations, and non-residents of the U.S. C corporation stock can be owned by LLCs, partnerships, corporations, other legal entities, and non-U.S. citizens.
- Stock can be divided into two different "classes": common and preferred. Common stock is the ordinary stock of the corporation that entitles the owner to voting (in most cases) and dividend rights. Preferred stock is a type of stock that gives the holder additional rights over common stock holders. Typically, preferred stockholders receive dividends and assets (in the event of liquidation) before holders of common stock. An S corporation

is limited to issuing common stock. However, voting differences within a class of stock are allowed. C corporations can issue shares of preferred and common stock. Sometimes corporations will issue multiple classes of common stock with different voting rights. For example, Class A shares might have 1 vote per share, Class B shares might have 20 votes per share and Class C shares might have 50 votes per share. Warren Buffet's company, Berkshire Hathaway, has two classes of common stock designated: Class A and Class B. A share of Class B has 1/200th the voting power of a Class A share. A company may choose to issue multiple classes of stock to keep the voting power concentrated in the hands of the founders.

- S corporations are limited to 100 shareholders while a C corporation can have an unlimited numbers of shareholders.

Taxes on Income to Owners

Salaries (W-2) received by owners in C and S corporations are subject to Social Security, Medicare, and income taxes. Profits, K-1 for S corporation, and dividends for C corporations are subject to income taxes, but are not subject to Social Security and Medicare taxes. For sole proprietorships, all profit (up to the taxable maximum) is subject to Social Security and Medicare taxes. Having your profits flow to you as K-1 income through an S corporation instead of as profit from a sole proprietorship could save you thousands each year in Social Security and Medicare taxes. The IRS requires that owner-employees of an S corporation be paid a salary that is a "reasonable amount" for the work being performed.

For example, if a sole proprietorship has a profit of $100,000, a 15.3% tax (12.4% Social Security tax and 2.9% Medicare tax) would have to be paid on the entire $100,000, totaling $15,300 ($100,000 x 15.3%). In comparison, if an S corporation has a profit of $100,000 and you pay yourself a reasonable salary of $40,000, the other $60,000 would flow to you as profit (K-1) and is not subject to Social Security and Medicare taxes. You only pay social security and Medicare tax on the $40,000 salary, for a tax of $6,120 ($40,000 x 15.3%). In this scenario, using an S corporation would save $9,180 ($15,300 - $6,120) in taxes each year.

Capital Accumulation

Retained earnings are a portion of profits which are retained by a corporation rather than distributed to its shareholders as dividends. Since the S corporation is a pass-through entity, it is required to distribute all profits to shareholders at the end of each year and is not allowed to retain earnings. C corporations are allowed to retain earnings, which enables you to take advantage of the 15% tax rate on the first $50,000 profit. If you are in a federal tax bracket higher than 15%, you may be able to reduce your taxes by setting up a Nevada C corporation and having a portion of your income flow to this corporation. Your corporation can retain these earnings so you are not double taxed. If you had a personal marginal federal income tax rate of 28% and a state income tax rate of 7%, you would pay $17,500 in federal and state income tax on that $50,000. If this $50,000 instead flowed to a Nevada C corporation, you would only pay the federal corporate tax rate of 15% or $7,500, saving you $10,000 in taxes. (Nevada corporations have no state income tax.)

Life

Both C corporations and S corporations continue to exist after the death of their owners. The corporation carries on indefinitely until it is dissolved by a vote of the shareholders or dissolved by the state for failure to renew the corporation.

Fiscal Year

C corporations can choose when their fiscal year ends, while an S corporation's fiscal year must end December 31. Having a different year end can delay tax on distributions to officers and shareholders. For example, if a C corporation sets a year-end date of January 31, they could pay year end bonuses, dividends, etc. in January and deduct the expenses in that year's corporate tax return. Since individuals observe the standard calendar year for taxation, the recipients of year-end bonuses and dividends would not have to declare the income on individual tax returns until the next year, since the payments were made in January.

Charitable Remainder Trust (CRT)

The Charitable Remainder Trust (CRT) was created by congress in 1969 and is recognized by the IRS as a charitable organization and, as such, is not required to pay taxes. The CRT is an irrevocable structure established by a donor to provide an income stream to the income beneficiary (typically the donor), while the public charity or private foundation receives the remaining value left in the trust when the trust terminates (typically at the death of donor(s)). In some situations, the CRT can also employ other family members and compensate them for duties performed. It is important that you set up a CRT properly and follow the IRS rules regarding the benefits and operations of a CRT.

The Charitable Remainder Trust is a tool that may help you

- Create a retirement income stream
- Avoid capital gains taxes
- Reduce or eliminate estate taxes
- Reduce income taxes as the result of a charitable deduction
- Benefit charitable organizations
- Protect assets from lawsuits

Example

John and Mary Smith purchased a rental property for $250,000 as an investment. Twenty-five years later, they were preparing to retire, and the property had appreciated to a value of $1,100,000. Over the years, they had depreciated the property $150,000, so the original basis of the property was only $100,000. If they were to sell the property for $1,100,000, they would have to pay capital gains taxes on $1,000,000 ($1,100,000 - $100,000). Their capital gains combined federal and state tax rate was 20%, which would result in a tax of $200,000 ($1,000,000 x 20%) on the sale of the property. If they were to sell the property and pay the tax, they would net $900,000 ($1,100,000 - $200,000).

If John and Mary first transferred the property into a CRT and the CRT then sold the assets for $1.1 million, they would owe zero capital gains tax on the sale of the property; and all $1.1 million would go into the trust. At a return of 7%, the $200,000 saved in capital gains tax would produce $14,000 income each year. John and Mary Smith would also be able to take a charitable deduction for giving the asset to the CRT. They could take a charitable donation deduction for the portion of the trust assets that will pass to the charity upon their deaths. The

IRS has tables to determine the percent that can be deducted. For this example, we will estimate that the charitable deduction would be approximately $150,000. At a tax rate for federal and state income tax of 35%, a deduction of $150,000 would save the Smiths $52,500 in income taxes. At a return of 7%, this $52,500 would produce $3,675 each year. Also, the transfer of the asset to the CRT will reduce the size of John and Mary's estate, which will, in turn, reduce or eliminate estate taxes.

The Smith's will enjoy income each year from the CRT for the rest of their lives. If one spouse passes away, the other will continue to receive monthly income. The money that remains in the trust after the death of both John and Mary Smith will go to their designated charity. In this example, we estimate that $150,000 would go to charity upon their deaths. In summary, by giving the asset to a CRT to sell, instead of selling the asset and paying the taxes, John and Mary Smith were able to:

1. Save $200,000 in capital gains taxes
2. Save $52,500 in income taxes
3. Receive $17,675 ($14,000 plus $3,675) more income each year from the sold asset
4. Give $150,000 to their charity of choice after death of both spouses
5. Reduce size of estate to decrease or eliminate estate taxes
6. Receive monthly payments from the CRT

Even though the money remaining in the trust is given to charity, the financial benefits to setting up a CRT far exceed the amount of money given to charity. The CRT creates a win-win, where you are able to receive more money from the assets and give money to charity. If you wish to still have the assets go to your family to manage upon your death, you can set up a Family Foundation and designate this family charity as the beneficiary of your CRT.

Revocable Living Trust (LT)

A Revocable Living Trust is used to

- Avoid probate
- Reduce or eliminate estate taxes
- Designate where you would like your assets to go upon your death
- Create a systematic distribution of your assets upon your death
- Keep your estate private
- Designate someone to manage your assets in the event you become incapacitated and unable to manage your own affairs

Other documents frequently used in conjunction with a Living Trust include:

- Last Will and Testament
- Living Will
- Medical Power of Attorney
- Durable Power of Attorney
- Irrevocable Life Insurance Trust (ILIT)

A Living Trust provides no income tax savings and, for tax purposes, it is as if they do not exist. No federal tax ID number is required. You are not required to file a living trust with the state, and tax returns are also not required. Just as it is ignored for income tax purposes, a revocable trust is ignored for creditor purposes and, thus, does not provide any protection of assets from judgment creditors.

A living trust is revocable, which means you can amend, alter, or cancel the trust at any time prior to death. Once the trust has been created and signed, you need to fund the trust. Funding the trust is the process of transferring the ownership of your assets to the living trust. For assets with title (bank accounts, cars, real estate, stock accounts, etc.), you change the ownership of the asset to the name of the trust. For real estate, new deeds are filed with the county recorder where the property is located. Bank accounts and brokerage accounts are transferred by simply changing the name on the accounts to the name of the trust.

For assets without a title (jewelry, art work, antiques, furniture, etc.), you simply list the items on the Schedule “A” of the Living Trust. On the schedule “A”, you would write a description of the items such as: American Heritage billiard table; brown leather couch, love seat, chair and ottoman set; limited edition giclée painting “Sacred Grove” by Greg Olsen; diamond and platinum wedding ring.

You can also fund the living trust indirectly by transferring your interest in other entities. For example, if you hold your assets in FLPs and LLCs, the living trust can hold your interest in these entities.

Is it very important that you fund your living trust with all of your assets because any asset that is not in the living trust when you die will have to go through probate.

In addition to avoiding probate, a living trust can reduce or eliminate estate taxes through the use of bypass trust and marital trust tax provisions. These provisions provide that assets held in a trust for a spouse or child will eventually pass to other heirs and, thus, save estate taxes.

Last Will and Testament

The Last Will and Testament will provide for the guardianship of minor children and contains a pour-over provision, so any assets not in your living trust at death will be placed into the living trust. These pour-over assets will still be subject to probate, so you want to ensure you transfer assets to your living trust before you die.

You will want to utilize the will in conjunction with the living trust. The use of a will without a living trust can be contested by the family and must be probated, which makes it subject to probate’s time delays and costs. Many attorneys recommend their clients create a will without a living trust to ensure the estate will go through probate. Why? Because attorneys do not always have their clients’ best interest in mind. The attorney wants to collect the legal fees associated with probate, and, in some states, the attorney receives a percentage of all the assets that go through probate. Probate is time consuming, costly, and public. The only person that benefits from your estate going through probate is the attorney.

Living Will

A living will is a document that outlines instruction for your medical care in the event that you are incapacitated and unable to make these decisions for yourself. A living will does not take effect until you are incapacitated. Until then, you are able to say what treatments you do or do not want. A living will can specify which treatments/procedures you do not want performed and give consent to treatments/procedures you do want performed. One of the directives of a living will is to state whether or not you would like to receive life-sustaining support when you are in a vegetative state and when there is no reasonable medical probability of recovery.

Medical Power of Attorney

This document gives the person you name as your agent the authority to make any and all health care decisions for you in accordance with your wishes, including your religious and moral beliefs, when you are no longer capable of making them yourself. Your agent has the power to make a broad range of health care decisions for you. Your agent may consent, refuse to consent, or withdraw consent for medical treatment. Your agent's authority begins when your doctor certifies that you lack the competence to make health care decisions.

Durable Power of Attorney

A durable power of attorney allows someone to act in your place should you become unable to act on your own behalf. The power of attorney allows your designated agent to manage your everyday affairs—from simple tasks such as paying a utility bill from your account to major decisions such as selling your home. This document allows you to decide who will manage your affairs in the event you are incapacitated, and the power can be defined as limited or general. If you are incapacitated and do not have a durable power of attorney, a court proceeding would be held and the court would appoint someone to make decisions on your behalf with the court overseeing the actions. Creating a durable power of attorney allows you to designate your agent of choice.

Irrevocable Life Insurance Trust (ILIT)

If the total value of your estate assets exceeds the exemption amount, the proceeds of your insurance policies will be subject to estate taxes. An irrevocable life insurance trust (ILIT) is an irrevocable trust designed to hold life insurance so the value of the policy is not included in the value of your estate, so the proceeds of a policy avoid estate tax. By removing the insurance policy's death benefit from the owner's taxable estate, an ILIT allows the full amount of the death benefit to go to beneficiaries—without being subject to probate or estate taxes.

Conclusion:
Complimentary Customized Asset Protection Plan and Consultation with Attorney

Although this book will teach you about the strategies and tools you can use to bulletproof your assets against lawsuits, save money in taxes, and plan your estate succession, the specific strategies and entities you use and the state you sent them up in will vary depending on your specific goals, assets, age, family situation, and the state in which you live. To ensure you know exactly which entities you need to set up and why, I have arranged for the finest and most experienced asset protection law firm in the country to provide readers of this book with a customized asset protection plan and phone consultation. Normally, the law firm charges clients $695 for this service; however, do to my relationship and influence with this firm, they have agreed to provide this service to those I refer to them at no cost. This is a very unique opportunity to have one of the Nation's top asset protection attorneys provide you with a customized asset protection plan, and for you to get all of your specific tax and legal questions answered by one of the nation's top experts with no obligations or cost.

This law firm has over thirty years of experience specializing in asset protection and has clients in all 50 states. They have done work for professional athletes, Hollywood celebrities, CEOs of large corporations, and thousands of physicians, dentists, business owners, real estate investors, and other professionals.

To begin the process of receiving your customized asset protection plan and consultation, I will send you a questionnaire the law firm needs completed. Your information will be kept confidential and is protected by attorney client privilege. Your plan will be tailored specifically to your goals, situation, assets, and the state you live in. The asset protection plan will clearly illustrate the entities you need to set up to ensure your professional and personal assets are 100% protected from lawsuits and that your taxes are reduced to the legal minimum.

You will receive your plan within 5 business days of the law firm receiving your completed questionnaire. You will then be contacted to set up a time for a phone conversation with the attorney who created your plan so that the suggestions can be fully explained and clearly understood and your questions can be answered. If you would like, you can have family members, partners, and advisors on this call so they understand what you are doing and can have their questions answered as well. Research found in *The Millionaire Next Door* concluded that "your ability to hire high-grade financial advisors is directly related to your propensity to accumulate wealth."[25] To receive your complimentary asset protection blueprint and consultation, please send me an email at CCT@DoesYourBagHaveHoles.org.

8 Asset Protection Myths

Are You and Your Advisor Making Any of These Mistakes?

Myth 1: You Should Operate Your Business as a Sole Proprietorship

Many attorneys and/or accountants recommend that their clients operate their business as a sole proprietorship because of the simplicity it presents when they file their tax returns. However, there are two major problems with operating as a sole proprietorship. First, while a sole proprietorship allows a person to deduct most business expenses, there are tax deductions and reduction strategies that apply to S corporations and C corporations that aren't available to sole proprietors. The second major problem is that a sole proprietorship provides zero protection against lawsuits. If your sole proprietorship is sued, all of your business and personal assets can be taken. Likewise, if you are sued personally (e.g., as a result of a car accident or injury at your home), all your personal and business assets can be taken.

Myth 2: A Corporation Protects Your Assets from Lawsuits

The corporation is a good management and tax reduction tool, but it is a poor lawsuit protection tool. If your corporation is sued, all of the assets owned by your corporation can be taken to satisfy the judgment. The corporation does provide some protection of personal assets with what is called the "corporate veil." The corporate veil is supposed to prevent a creditor from going after personal assets to satisfy a business debt. However, the corporate veil is often easily pierced, enabling your personal assets to be seized to satisfy a judgment against your business.

Myth 3: I Don't Think I Will Ever Get Sued

For most professionals, it is not a matter of *if* you will get sued, but *when* you will get sued. Statistically, the odds of avoiding a lawsuit are very small. It is estimated that a lawsuit is filed every thirty seconds in the U.S. Not protecting your assets against lawsuits would be like living in an earthquake, hurricane, or flood zone and not purchasing the necessary insurance to protect your home: once the disaster hits, it is too late to buy insurance. Likewise, once a lawsuit hits, it is too late to set up the legal structures. You need to get them in place before the disaster hits. Once a lawsuit is filed against you, the transfer of assets to family limited partnerships or LLCs may be interpreted as "fraudulent conveyance" and can be unwound. Therefore, it is essential to get the legal structures in place before you are sued. Now is the time to ensure that your assets are safe and secure.

Myth 4: 100% Asset Protection is Impossible

Advisors will often tell their clients it is impossible to protect 100% of their assets in the event of a judgment. Advisors will also tell them that some strategies and techniques might slow the judgment collection process down, but that they can't prevent their professional or personal assets from being taken once a judgment has been made against them. They might also advise the use of some simplistic asset protection strategies that will not totally protect them because that's all they know. The truth is there are tools you can use to achieve 100% asset protection.

Myth 5: You Should Put Your Assets in Your Lower-Liability Spouse's Name

One of the most frequently used strategies, recommended by less-than-experienced advisors, is to put assets in a lower-liability spouse's name. This may provide a modest amount of protection in the event of a lawsuit, but there are four significant drawbacks to this strategy that would leave the assets vulnerable in all fifty states. First, it must be realized that courts carefully scrutinize conveyances between relatives and can invalidate the transfer of property regardless of when the conveyance took place. Second, your spouse may be declared an implied officer in the corporation and be named in a lawsuit. Third, your spouse could get sued personally. For example, if your spouse was involved in a car accident and someone was killed, a lawsuit would most likely follow; and every single asset in the spouse's name would be at risk. Finally, having assets in your spouse's name can cause serious problems in the events of a divorce. With the divorce rate at over 40% in the U.S., this is a factor to consider.

Myth 6: My Local Attorney Can Set Up My Asset Protection

Even though there are more than one million practicing lawyers in America, less than one percent claim asset protection as their specialty. In fact, many legal and financial professionals simply do not have the specialized knowledge required to implement all of the right strategies, entities, and document language needed to provide 100% asset protection. Attorneys will often use language in their documents that will actually hurt the clients in a lawsuit. In recent years, many attorneys have expanded their practices to include asset protection or, if asked, will tell you they can do the work for you, but most have minimal experience and expertise on the subject. If your personal attorney has not already recommended that you place your assets into properly-drafted family limited partnerships, isn't it time you question his or her asset-protection expertise? Research found in the book *The Millionaire Next Door* concluded that "your ability to hire high-grade financial advisors is directly related to your propensity to accumulate wealth."

The American Society for Asset Protection works with the highest grade and most experienced asset-protection lawyers in the country.

Myth 7: A Single Entity (LLC or Corporation) is All You Need

Typically, a combination of entities will be the best course to take, rather than the use of one corporation, LLC, or family limited partnership. Most advisors are unaware of how to gain the best tax advantage and ensure 100% asset protection through the use of multiple entities. The strategy of using multiple entities will minimize taxes and protect 100% of your assets.

Myth 8: Liability Insurance Will Protect Me Against Lawsuits

You may feel that you are protected from lawsuits because you have liability insurance; however, insurance is like a hospital gown—you only think you are covered. Liability insurance does provide some protection against lawsuits, but it is limited in its coverage. Juries often will award judgments in excess of liability insurance coverage. Exclusions in your policy may also result in your insurance company denying coverage and leaving you liable. For example, a physician had $1 million in insurance coverage. When the jury awarded $2.1 million, the physician was liable for the remainder. At age 63, he lost everything. If his assets had been structured properly, he would not have lost any of his personal or professional assets. As judgments have increased over the years, some advisors simply tell professionals to get more liability insurance. This is problematic, as larger policies are costly and often serve as homing beacons for trial attorneys, who look for the deepest pockets in which to reach.

Frequently Asked Questions

Why hasn't my attorney or CPA told me more about these asset protection tools?

We live in a very specialized world. For example, doctors specialize in a specific area of medicine (orthopedics, ophthalmology, radiology, cardiology, etc.); it is no different in the legal world. There are specialists for every part of our legal lives. There are attorneys who specialize in patents, family law, bankruptcy, personal injury, prosecution, taxes, estate planning, etc. Asset protection is a highly specialized area of law—one with which most attorneys are unfamiliar. A survey by the American Bar Association showed that less than one percent of attorneys claimed asset protection as their specialty. Our legal team has over one hundred years of combined experience in the field of asset protection, with clients in all fifty states. Our strategies have been used for years by national hotel chains, professional sports teams, doctors, dentists, savvy business owners, and associations.

Aren't all Limited Liability Companies (LLC) and Family Limited Partnerships (FLP) the same?

Absolutely not. It is very important to know that there is a difference between the language in a standard LLC and FLP and the language in an LLC or FLP drafted for lawsuit protection. Standard LLCs and FLPs do not contain language surrounding the manner in which general partners can distribute income. Most contain language that would force the FLP or LLC to distribute income to a creditor. You may have an LLC or FLP and think you are protected by the charging order, but if your legal document does not contain unique clauses regarding the distribution of income, you will still have to distribute income to satisfy the judgment. Our asset-protection FLPs and LLCs guard against this possibility, with over fifty unique clauses not found in most FLPs and LLCs. These clauses have been drafted, perfected, and proven in all fifty states. In our legal documents, the general partners may legally withhold their income distributions from plaintiffs, or whomever else they please, due to specific clauses.

Can't my local attorney set up the entities (FLP, LLC, Living Trust, etc.) for me?

Most attorneys can set up an FLP, LLC, or Living Trust, but not all entities are created equal. The effectiveness of an LLC and FLP depends on the language used in the document. Our team of legal experts has reviewed thousands of LLCs and FLPs and has found that over ninety percent of the time, the LLC and FLP the client received from their local attorney did not contain the needed language to protect assets in the event of a judgment. Be aware that if you go to your attorney to set up an LLC and/or FLP, the odds of it containing the language you need to really be protected are less than ten percent. Our documents have been drafted and perfected over the last thirty years by the nation's top attorneys for complete asset protection and tax reduction. If your local attorney has previously done work for you, it is always good to get a second opinion to make sure your assets are structured in the best possible way and that the documents contain the language needed to protect you.

The blueprint and consultation you receive from our legal team will allow you to review your current asset structure, explore changes to existing entities, consider adding new entities, and evaluate the benefits recommended by the legal team of experts.

My attorney tells me I already have everything I need. Is that true?

It is always a good practice to get multiple opinions to be sure you are structured as accurately and safely as possible. One of our clients, a urologist, relied on the advice of his local law firm and accountant for years until we suggested he meet with our legal team. Reluctantly, he did; and he quickly learned that the strategies his attorney and accountant had recommended had put him at great risk to lose most of his assets in the event of a lawsuit. For instance, his attorney had recommended putting his assets in his spouse's name without taking into consideration that his spouse was the bookkeeper for his business, which made her vulnerable for a lawsuit because she was an implied officer of his corporation. Putting assets into a spouse's name is one of many common mistakes made by many attorneys. There is a much better way to protect assets. Our team of attorneys also discovered that this doctor had been paying more in taxes than he needed to for years. By structuring his assets differently, they were able to reduce his tax bill by $20,000 annually. The urologist was extremely satisfied with the services of our legal team. His only regret was that he had not worked with an asset protection and tax attorney sooner. Avoid the mistakes of many other professionals and business owners—get a second professional opinion from our legal team of experts.

Will the use of these strategies increase my chances of being audited?

No. In fact, IRS statistics show that a sole proprietor is much more likely to be audited than a corporation, so using the strategies discussed in our presentation will actually reduce your odds of getting audited. If, on the rare occasion, you are audited, it is nothing to worry about if you follow the IRS codes and have proper documentation. For example, one of our clients pays 10% of his income as tithing to his church, which he takes as a charitable donation deduction on his tax return. His 10% donation is much higher than the national average, so one year he was audited. It was a very simple process. He provided the auditor with the IRS-approved documentation for the tithing deduction, and the audit was quick and painless.

Has the Family Limited Partnership held up in court and been proven to protect assets?

Absolutely! A carefully-constructed family limited partnership has been proven to protect assets in court case after court case. Thousands of professionals have structured their assets for lawsuit protection, and some of them have been sued. However, none of our clients, who have a properly-drafted family limited partnership, has lost a single cent as a result of a lawsuit. Many years ago, one of our attorneys appeared in a federal court to defend a client who had used our asset-protection principles. The client had strategically placed his personal belongings in a carefully-worded Family Limited Partnership that protected him from losing anything in a lawsuit. The judge said to our attorney, “Counselor, tell me why I should not send your client to jail for failure to turn over his assets and pay the judgment rendered against him by this court?” The attorney responded to the judge by explaining the details of the family limited partnership to him. He also explained the tax ramifications to the plaintiff that if he utilized the “charging order,” he would then be responsible for paying taxes on the assets. Not only did the judge not throw our client in jail, but the judge actually started taking notes on how the client protected himself from this lawsuit. After the case was adjourned, the judge asked our attorney to explain family limited partnerships to him in detail for his own use. Both the plaintiff and his attorney were devastated with the results. The plaintiff was unable to collect the money for the judgment; his attorney lost tens of thousands of dollars in this contingency court case. In addition, if the plaintiff had attempted to use the charging order, all he would have received was a tax bill from the IRS. Attorneys who have been burned in the past with similar results agree that if a properly-drafted family limited partnership is discovered during pre-trial investigations, they will not pursue the lawsuit.

Will the Family Limited Partnership work in my state?

YES! In all fifty states, the family limited partnership is legally established and can be used to protect assets. To date, our legal team has helped thousands, all over the nation, structure their personal and professional assets into family limited partnerships.

About the Author

Cameron C. Taylor has been a partner with the nation's top asset protection law firms for more than a decade. Cameron is a nationally recognized scholar who has been invited to present lectures and seminars to organizations all across the country. He is the author of the books *Asset Protection Made Easy*, *Does Your Bag Have Holes? 24 Truths That Lead to Financial and Spiritual Freedom, 8 Attributes of Great Achievers,* and *Twelve Paradoxes of the Gospel.* Cameron's books have been endorsed by Ken Blanchard, co-author of *The One Minute Manger*, Dr. Stephen R. Covey, author of *The Seven Habits of Highly Effective People*, Billionaire Jon Huntsman, Sr., founder of Huntsman Chemical, Rich DeVos, owner of the Orlando Magic, William Danko, PhD, co-author of *The Millionaire Next Door*, and many others.

Endnotes

[1] Thomas J. Stanley, William D. Danko, *The Millionaire Next Door* (New York: Simon & Schuster, 1996), 105.
[2] Verdict Search
[3] Sirmans v. Adventure Landing, Inc.
[4] Alston v. Warble
[5] Olmos v. Mendoza
[6] Verdict Search
[7] Talarick v. Sam and Bubba's Pizza
[8] Smack v. Progressive Transportation Services, Inc.
[9] Estate of Mazurek v. American Medical Response Inc.
[10] Ritter v. Stanton
[11] Clohesy v. Food Circus Supermarket, Inc.
[12] Verdict Search
[13] Gutierrez v. Trammell Crow Central Texas, Ltd.
[14] Roberts v. Grand King Buffet
[15] Andrew v. Lower Kuskokwim School District
[16] T Bonds v. Flagship Resort Development Corp. Inc.
[17] Summer v. Merrill Lynch, Pierce, Fenner & Smith Inc.
[18] Miraglia v. H & L Holding Corp.
[19] Riordan v. Corporation of the Presiding Bishop of the Church of Jesus Christ of Latter-Day Saints
[20] Swinton v. Potomac Corporation
[21] Pickering v. Best Western Timber Cover Lodge Maria Resort
[22] Judkiewicz v. WHS Realty Management Co. LLC
[23] Verdict Search
[24] Gregory v. Helvering, 35-1, USTC Par. 9043, 293 U.S. 463, 469 (1935).
[25] Thomas J. Stanley, William D. Danko, *The Millionaire Next Door* (New York: Simon & Schuster, 1996), 105.