

Asset Protection Planning with LLCs and Corporations

Limited Liability Companies (LLCs) and corporations can be helpful tools used as part of an overall asset protection planning strategy.

Both LLCs and corporations can be created and funded with assets. For example, you could fund the LLC or corporation with marketable securities or real estate. Typically, marketable securities fund the entity if you are concerned about a creditor going after the investments because of professional negligence (e.g., a doctor).

Rental real estate is often owned by an entity to compartmentalize the risk associated with the asset itself. If there is a creditor claim against the owner of the entity (such as a malpractice claim), then the underlying assets of the entity are protected from attachment by this creditor. If the asset itself is risky, such as a rental property, then the owner of the entity is “blocked” from liabilities associated with the ownership of the assets. For example, if a tenant sues the entity for a personal injury the other assets of the entity owner are not at risk.

It is important to “respect” the LLC or corporation as a separate entity. Otherwise, you run the risk of a creditor “piercing” the entity to undo the asset protection. You will need to have a bank account for the entity, keep separate books and records, and file tax returns for it.

A key tax difference between LLCs and corporations is that self-employment tax can be avoided with a corporation. Self-employment taxes do not matter, though, if the activities of the entity are passive. LLCs tend to be more flexible with respect to distributions to owners and in how debt is accounted for.

Overall, a LLC or corporation can be a helpful planning tool that is part of a comprehensive asset protection strategy.

Vance Antonacci, Attorney at McNeese Wallace & Nurick LLC
Lancaster, Pennsylvania

Learn more about an overall asset protection planning strategy through LLCs and corporations. Our ensemble of financial advisors is here as your trusted partner.

www.evergreenwealthsolutions.com



1000 Commerce Park Drive, Suite 407 | Williamsport, PA 17701
Phone: 570.601.6960 | Fax: 570.651.9032
info@egwealth.com

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