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SMALL BUSINESS

Asset Protection

Most people know that you can form a limited liability company (LLC), or a corporation to protect their personal assets. However if you use your corporation or LLC as your personal piggy bank, you could get in trouble.

Craig W. Smalley • Jul. 29, 2022



Most people know that you can form a limited liability company (LLC), or a corporation to protect their personal assets. However if you use your corporation or LLC as your personal piggy bank, you could get in trouble. In fact there are a lot of

ways to protect your assets. In this article we will discuss the different ways to protect your assets.

First of all, if you own rental properties you can form a Land Trust. A Land Trust is an irrevocable trust. Irrevocable Trust protect your assets. A trust is a contract comprised of three people. You have the grantor, the person that creates the trust. Then you have the trustee the person or entity that controls the assets, then you have the beneficiaries, the people that inherit the assets. It is important to note that a revocable trust does not protect your assets. A revocable trust is a grantor trust, which means it's you. It avoids probate however it doesn't protect your assets.

Another way to protect your assets is to form a corporation or an LLC. However there are tax implications with both. If you form an LLC and you are a sole proprietor. You can find yourself in trouble come tax time. If you make no election to be taxed, you are a single-member LLC as a disregarded entity. What this means is you are taxed at the highest rate as you can be. Not only do you pay income tax, you pay self-employment tax which is 15.3%. So objectively you can be paying tax at 40%. As an LLC you can elect to pay tax as an S-Corporation, or C-Corporation. Yes the LLC can protect your assets, however the tax implications can be intense.

A Corporation is different. You have two choices. You can do nothing and be taxed as a C-Corporation which pays 21% in tax, or you can elect to be taxed as an S-Corporation which pays tax at your ordinary income tax rate. Not to mention you have to take a reasonable salary.

In closing, you need help if you are starting a business.

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