INSIDER'S GUIDE TO ASSET PROTECTION

By nationally known asset protection and estate planning experts

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Insider's Guide to Asset Protection:

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1-800-COMPANY ®
28015 Smyth Drive
Santa Clarita, CA 91355
Tel. 1-800-COMPANY / +1-661-253-3303
Web. www.1800company.com

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Chapter 1

Why Protect Your Assets?

He was just 28 years old. Joe Taylor (whose name has been changed to protect the innocent), the young, trusting, wannabe entrepreneur had visions of sugarplums dancing in his head. He had recently attended one of those "get rich" real estate seminars, at a large Seattle hotel, that he had seen advertised on late night TV.

Joe had taken his knowledge, what little he possessed, and drove to the coast with his pregnant wife to meet the seller of a dilapidated 6-unit apartment building in the slums of Tacoma. $3000 down and monthly payments $463 to the seller was the deal he had so cleverly negotiated.

Over the next couple of years managing the property, he learned how to evict prostitutes, drug dealers, gang members and, oh yes, collect rent. He picked bullets out of the walls with a pocketknife on more than one occasion after some all-too-familiar drive-by shootings.

Joe decided to fix up the property. So, he took the little money he had made from renting the property and tapped his meager savings account to make improvements to the building. He was introduced to a contractor at a friend's housewarming party by a fellow church-member. The contractor, who had recently joined the same congregation, was in his mid 40s, new to town, handsome, well groomed and smooth-talking.

The contractor said he desperately needed money to pay some back-taxes and would do the work for cheap if he was paid $8,000 up front. In exchange he would paint the building inside and out, replace the cabinets and put in new floors in all six units. Joe obliged, thinking he was both helping a fellow-parishioner and getting a bargain.

The inevitable happened. The contractor spent the money on his taxes and had none left over to finish the job. So, the builder approached a factor financing company; a break-your-knees joint on the Seattle waterfront, to obtain a short-term loan. The work ensued, and thirty days later the contractor had a problem. The factor-financing loan became due. The contractor asked Joe if he could borrow the money to pay it off. In turn, the contractor would get another loan from the factoring company to repay Joe.

Joe complied and paid the contractor's lender directly. The contractor got a second loan. Joe was repaid, and the fix-up work continued. The same scenario occurred two more times, with Joe getting repaid and the contractor continuing the job.

Then the world collapsed. Joe got a call from the lender that said that the $70,000 loan was due. What $70,000 loan? The contractor had been forging Joe's signature on the factor financing loan documents.

Joe had been set up. The contractor had Joe re-pay the loans directly to the lender to make it appear that Joe and the contractor were in cahoots.

The day the big burly guy pulled up in front of Joe's house with lawsuit papers was the day that Joe and his wife brought home the couple's second child from the hospital, a newborn son.

A four-year knock-down drag-out legal battle ensued. The legal bills were devastating. It was like a vacuum cleaner sucking dollars out of his bank account. These were four long years where Joe would lie on his back at night staring at the ceiling in a pool of sweat worrying about how he would provide for his family. Would the family of four be kicked out onto the streets, homeless, begging for pennies? He would look to his left. There was his wife laying in bed in pool of sweat staring at the ceiling.

Research revealed that the contractor, a former drug-dealer, had for years run a chain of cons from Hawaii to Texas to Florida leaving a string of victims in his wake.

The young couple's friends couldn't understand. "You guys are victims." "Can't you just tell the courts this?" "Can't you just tell them that?" If you have never been in a lawsuit, it is difficult to understand. The reasoning of an ordinary human being and the rationale of the courts are two different animals. It's like a pit bull has you by the throat and they only let go when they decide to let go. Then you have to convince a jury of 12 strangers that you are innocent of wrongdoing while your opponent is bent on making you look like Adolph Hitler.

Joe was wiped out financially by the ordeal. Lawsuits take lawyers and Joe had no money left to pay them. The lender seized Joe's small apartment building and his bank accounts were left dry from the legal bills. He and his wife filed a no-asset bankruptcy and were left penniless. The contractor ended up in prison for nine months. A painful lesson was learned by all.

Joe and his family are not alone. The United States has just **five percent** of the word's **population** and yet **70%** of the world's **lawyers**. Legal experts agree that there are literally millions of lawsuits filed in the U.S. every year that would not be pursued overseas. Many of these lawsuits are filed by lawyers who must litigate just to survive.

A survey conducted by Harris Interactive, revealed the following:

- 76 percent of the people surveyed feel that fear of frivolous lawsuits discourages people from performing normal activities.

- Only 16 percent of the people trust the legal system to defend them against frivolous lawsuits.

- 54 percent don't trust the legal system at all.

- 94 percent agree that there is a rising tendency for people to threaten legal action.

- 83 percent feel that the legal system makes it far too easy to make bogus claims.

- 56 percent believe that fundamental changes are needed to improve the civil justice system..

The most revealing result was that 87 percent of Americans surveyed agreed that the justice system is used by many as a lottery to file a lawsuit and see how much they can win.

In addition to an overabundance of lawyers, the **U.S.** is about the only civilized country in the world that **does not have a "loser pays" legal system**. In other countries of the world, such as Canada and England, for example, the one who loses a lawsuit pays his or her own legal fees as well as those of the opponent. However, in the U.S. this scenario is much different. Even if a party to a lawsuit wins, he or she is still out his or her own legal expenses. What this means is that in the U.S. **even if a defendant in a lawsuit wins he or she still loses**.

In other countries, one must think twice before bringing suit. Is the chance of losing the lawsuit and paying the bills of two attorneys worth the possible outcome? Most foreign lawsuits that would be litigated in the U.S. are dropped before they start.

Of course those who live outside the U.S. are not safe. The rising tide of litigation remains a major concern in a majority of countries around the world.

The lawsuit jungle does not vanish after your death. **Probate fees**, which are paid in order to bring your estate to closure upon your death can take a sizable chunk of your estate. Probate is, in summary, the procedural act of proving that a will is valid. Some people believe they can avoid probate if they have a will. This is quite the contrary.

Many states set the probate fees that an attorney is allowed to charge. These fees are often around 8% of the **gross worth** of the estate. If a jurisdiction does not have state-mandated probate fees, each attorney can establish his or her own rate. The attorney can charge based on a percentage of the gross worth of the estate or the attorney can bill his or her clients on an hourly basis or both. This arrangement often ends up costing the same as or more than charges incurred in a state that has state-mandated probate fees.

Let's take a look at what we mean by gross worth. Let's say, for example, that you leave behind a $400,000 home upon your death. For the purposes of this discussion, we will say that you were somehow able to acquire a $399,000 mortgage on the property before you died. To move this particular asset through probate, it would cost your estate, ($400,000 x 8%) $32,000 in probate fees. Since in this example your heirs have only a $1000 equity in the property, they would lose $31,000 worth of your estate to simply move this asset through the probate courts!

There is some good news. **There is a way to avoid probate completely**. Read on for solutions to this dilemma.

Not only do you need to be concerned about probate after your death. Estate taxes also take their toll. Estate taxes are paid over and above probate fees. The U.S. Internal Revenue Service has, for years, sets its maximum federal estate tax rate at 55%. If sizable, the federal, and sometimes state, government can take a majority of your estate before it is distributed to your heirs. Continue reading to find out how to virtually eliminate estate taxes.

Solving these concerns is what this publication is about. We take you through the legal tools that can help you protect your assets from litigation. We show you how, through the use of the proper legal entities, to protect yourself and your business from excess taxes. We also show you how you can avoid probate fees and lower or eliminate your estate taxes by simply structuring your affairs properly. It is our hope that you find the information contained in this booklet useful today and that we can help you build your asset protection plan.

Do It Now

The average man or woman in the United States today experiences five lawsuits in his or her lifetime. The odds are that one of these is a devastating lawsuit.

You can and must safely shelter your assets from lawsuits before a lawsuit strikes. The law deals quite harshly with those who seek last minute transfers of assets in an attempt to defraud creditors. What this means is that you must realize now that you *can* run into financial trouble. You must recognize and come to grips with your own vulnerability. When you get this reality under your skin, only then will you have the sense of urgency necessary to take action to protect yourself from the virtually inevitable.

Most of those who have assets to lose occasionally consider taking action to protect their assets and lower their taxes. The reminder may strike around tax time or when a lawsuit or other tragedy strikes. However, the consideration often fades when the danger subsides. Then the procrastinator is usually leveled with a financial blow that robs the individual of hard-earned resources.

You are strongly urged to follow these words: **DO IT NOW!** These are the most important words in this book.

Write it down in your appointment book right now. Tell yourself that you will talk to a knowledgeable attorney. Feel free to call us. This is the beginning of a safe and secure financial future for you and those you care about. If you already have significant resources, you already know that this is action you need to take now. If you do not yet have significant resources this is the foundation upon which to build a strong financial future.

Chapter 2

Corporations

When you incorporate you form a new person; a legal person created by statute. It is not you. You are not it. It is separate from you.

Corporation = Person

Why incorporate? Three reasons.

Lawsuit protection

In our lawsuit-plagued world, **using a corporation** as a shield to separate you personally from the all of the potential liability in your business is almost a **legal necessity. Once you do business with the public or have even one employee, you are wide open to legal liability.** Year after year there are thousands of us who lose nearly everything we have due to personal liability with our unincorporated businesses. In addition, once you do incorporate it is important that your business follows certain, relatively simple, formalities so that it looks and acts like a corporation.[1]

[1] When our organization, 1-800-COMPANY.com ®, establishes a corporation for a customer, our customer receives a list of such formalities.

2. Income tax savings

There have always been more tax deductions available to "C" corporations than to businesses that are not incorporated. A few examples include medical expenses, business trips and entertainment. The IRS seems to give preferential treatment to corporations.

3. Estate planning

Once the richest individual in America, the late Sam Walton, of Wal-Mart retail stores, reportedly placed his business assets in a **closely held family corporation** from near the beginning of his career. Taking the advice of his father-in-law, Mr. Walton reportedly set up a limited partnership to own the company, through which he gave **each one of his four children 20% of the stock and he and his wife together owned the remaining 20%.** In the beginning, the value of Mr. Walton's family corporation was relatively small. Through the years, the value of the assets held inside his family's corporation grew into the billions of dollars. However, upon Mr. Walton's death there was no estate tax due upon the children's shares of stock! Why? Because the shares of stock had already been owned by the children from the beginning of Mr. Walton's career. Since a surviving spouse receives assets estate tax free Mrs. Walton was also able to avoid paying estate taxes on her portion of the assets. From reading Mr. Walton's book "Made in America" it is quite clear that Mr. Walton had no idea at the beginning of his career that his fortune would grow into the billions of dollars.

Now envision the same scenario if Mr. Walton hadn't planned ahead. The 80% that Mr. Walton's children owned amounted to some $17.6 billion. If Mr. Walton had given 80% of his wealth to his children after he died instead of at the beginning of his career, his children would have had a whopping tax bill of close to $9.7 billion handed to them from the IRS! Instead, they paid nothing in estate taxes.

Many people establish their corporations with **two classes of stock: voting and non-voting**. The parents own all of the voting stock and control the entire corporation while the children own the majority of the corporation through non-voting stock.

Whether you have a large or small estate, it is important to **take action now** to ensure that you have a proper estate plan. "Better now than later" is the advice of anyone who has been surprised by a whopping estate tax bill after having to endure the loss of a loved one.

How does a corporation differ from a General Partnership?

Let's say you are doing business as a general partnership. Then, **let's say your partner, Joe, is sued** for failure to pay a personal debt. Your partner, Joe, loses the lawsuit. If your business is a general partnership then **Joe's judgment creditor** (that is, the one who won the lawsuit against Joe) **can take all of the assets** (money, equipment, accounts receivable, etc.) **owned by your general partnership**. This is true even if you have nothing to do with your partner's debt. **It is also true if you or Joe is sued for any number of other reasons.** This may include negligence, an auto accident where insurance doesn't cover the entire debt, someone slipping on his front porch, etc.

Let's say **your general partnership itself is sued**. Your partner, Leslie, makes a mistake that costs one of your customers $100,000. Your customer sues and wins. Now, the customer who won the lawsuit can take not only the assets of your business and Leslie's personal assets. Again, the customer can also take YOUR personal assets away from you. Depending on the state in which you live, that means the customer who won the lawsuit against your business can take your house, all of the money from your bank accounts, your investments, your cars, your furniture, etc. If you get a job elsewhere, the customer who won the lawsuit may be able to take up to 25% of the money from each paycheck away from you. Therefore, general partnerships serve no role in asset protection.

If you think that you can simply transfer your assets to family members before your customer gets them, think again. Laws in all states have "fraudulent transfer" provisions. Courts will take back transferred property and give them to those who have won lawsuits against you. In addition, you could also be subject to severe civil or criminal penalties for transferring assets when you know a lawsuit is on its way. You need to build your fortress before your battle begins.

Build your corporate fortress

By doing business as a properly structured, properly run corporation, you put a shield between yourself and your business. You also put a shield between yourself and your partner. In addition, if your corporation is sued, then assets—equipment, cash, accounts receivable, etc.—used by your corporation can be protected by using the other asset protection tools we'll discuss in this book, the limited partnership or the limited liability company (LLC). In brief, the corporation can have as few assets as necessary and lease its equipment from your limited partnership or LLC.

Nevada Corporations

Of all US States, Nevada law possesses significant advantages for the owners, officers and directors. Some of the major benefits are as follows:

1. Protection from the piercing of the corporate veil.

2. Strong legal protection for the officers and directors.

3. Protection from joint and several liability.

4. Nevada law discourages lawsuits.

5. Nevada is state income tax free

6. Nevada law provides for privacy of corporate ownership.

What is piercing the corporate veil? When you form a corporation, corporate formalities must be followed. A corporation is a person but, in most states, once your corporation is formed, you must take simple actions for it to continue to be legally recognized as a separate person from you. If the corporation does not keep accurate records of meetings through the minutes and if the corporation commingles funds with its owner, it becomes easier for the courts to pierce its corporate veil. Another contributing factor as to why corporate veils get pierced has to do with low capitalization. In some states, like California, we recommend that you capitalize your corporation with at least $1,000. If not, it can be easier for someone to prove that you were simply the alter ego of the corporation. That is, the courts can contend that the corporation and its owners are one and the same.

What does Nevada law contend? Nevada is referred to as a "thin capital state." This means that you can form a corporation in Nevada and capitalize it with as little as $100, for example. In August of 2001, Nevada laws were further strengthened such that the corporate veil cannot be pierced unless, with few exceptions, the owners use it to commit outright fraud.

This is one of the main reasons large companies like Citibank are domiciled in Nevada. Delaware and a few other states soon adopted lesser versions of this law, but Nevada's law remains among the strongest and most comprehensive in the country.

Nevada corporate code allows for the indemnification of all officers, directors, employees, stockholders, or agents of a corporation for all non-fraudulent actions that they take on behalf of the corporation.

The other significant benefit in Nevada law is the abolishment of joint and several liability. Joint and several liability means that should a judgment be entered against several defendants, they will each assume equal liability for the full amount of the judgment, regardless of their relative fault in causing the damages. Nevada now requires the court to assign a percentage of fault to each defendant, from zero to one hundred with the total equal to 100 percent. Every defendant found liable is required to pay a share of the total judgment no greater than his/her fault.

Nevada vs. Delaware

The main rights in Delaware law benefit shareholders of **public corporations**. This attracts large, public companies that trade on various exchanges across the country to provide the best protection to their shareholders. Delaware's corporate law is strongest anywhere in the US to protect a publicly traded company from corporate takeover.

More recently however, Nevada's corporate law offers stronger protection than Delaware in its efforts to insure the protection for the heads of small corporations. The following are examples where officers and directors are exposed under Delaware law but are protected under Nevada law.

- Acts or omissions not in good faith.
- Acts by officers are not exempt from monetary damages under Delaware law.
- Breach of a director's duty of loyalty.
- Transactions involving undisclosed personal benefit to the officer or director.
- Acts or omissions that occurred prior to the date that the statute which provides for indemnification of directors, was passed and approved.

In Delaware, officers must reasonably believe that he or she is performing his or her duties in a manner that is in the best interests of the corporation. This requirement is *not* present in Nevada. The director may take action that is in his or her own best interest without regard to the best interest of the corporation.

If Your Foreign Corporation Doing Business in Your Home State, Which State's Laws Take Precedence?

Let’s say you formed a Nevada corporation for your new California restaurant. You would be legally required to register it as a foreign (out-of-state) corporation doing business in California. Why do this as opposed to forming a California corporation? As we discussed, Nevada is considered the most difficult state in which to pierce the corporate veil and take action against the people who run the company. This is why public speaker Anthony Robbins, Citibank, The Home Shopping Network and many other companies are based in Nevada.

If your California restaurant were sued, that lawsuit would occur in California courts. However, if someone tried to pierce the corporate veil, the litigation may occur in Nevada. In this event, there would be additional expenses for the suing party involving travel to Nevada to try the case that may discourage litigation.

When you operate a Nevada corporation doing business in California you will likely enter into several written agreements and contracts. Those agreement and contracts would typically fall under the laws of California. But you can take action so that Nevada law prevails.

You can add a clause in your contracts called "choice of law jurisdiction." This means you can enter into a contract and add a simple clause indicating that if a legal dispute occurs, any legal action falls under the laws of Nevada (state of domicile) not California (state of doing business), for example. If there were a challenge you would have the laws of Nevada on your side. This may work in your favor to discourage lawsuits.

Another benefit of Nevada is that there isn’t a state income tax. Nevada actually has a constitutional ban on income tax.

Nevada corporate law also provides for significant privacy. The **owners** of a Nevada corporation are not in the public records. What this means is the first thing an attorney would typically do when he's thinking about suing you is an asset search. With a Nevada corporation – the public records do not indicate who owns it.

There are two common ways people use Nevada corporations:

> To operate a business in the home state of the owner or owners of the corporation, as we have discussed,
>
> **OR** (but not both unless one has more than one corporation as described below)
>
> to **reduce or eliminate state income taxes**, significantly reduce federal income taxes, and provide financial privacy. (Check with your tax and/or legal advisor.)

Corporations formed in one state can do business in all 50 states (much like a person born in once state can later move to another state to work). Like our restaurant example, John owns a trucking business in California. He wants to form a Nevada corporation for his business. So, he simply has a corporation formed in Nevada and then he has the Nevada corporation registered to do business in California. Since the corporation is operating in California, the corporation must pay any California state tax that is due.

The second common way to use a Nevada corporation is to **eliminate state income taxes.** For example, John's neighbor, Fred, wants his business and investment profits to be paid to his Nevada corporation to reduce or eliminate his state taxes and lower his federal taxes. If he has stock market investments he first sets up a Nevada limited liability company to hold his investment portfolio. Then he sets up a Nevada corporation to manage his investments. Active, management income for a corporation is taxed at a lower tax rate than passive, investment income. So, his Nevada corporation manages the investment account and receives active income in the form of a management fee. The management fees paid to the Nevada corporation are earned in Nevada free from state taxes. The business he operates in his home state also hires his Nevada corporation for consulting services, or to supply him with business supplies at a mark-up further reducing his state taxes. Again, check with licensed tax and/or legal counsel before employing these techniques.

Please see the illustration that follows.

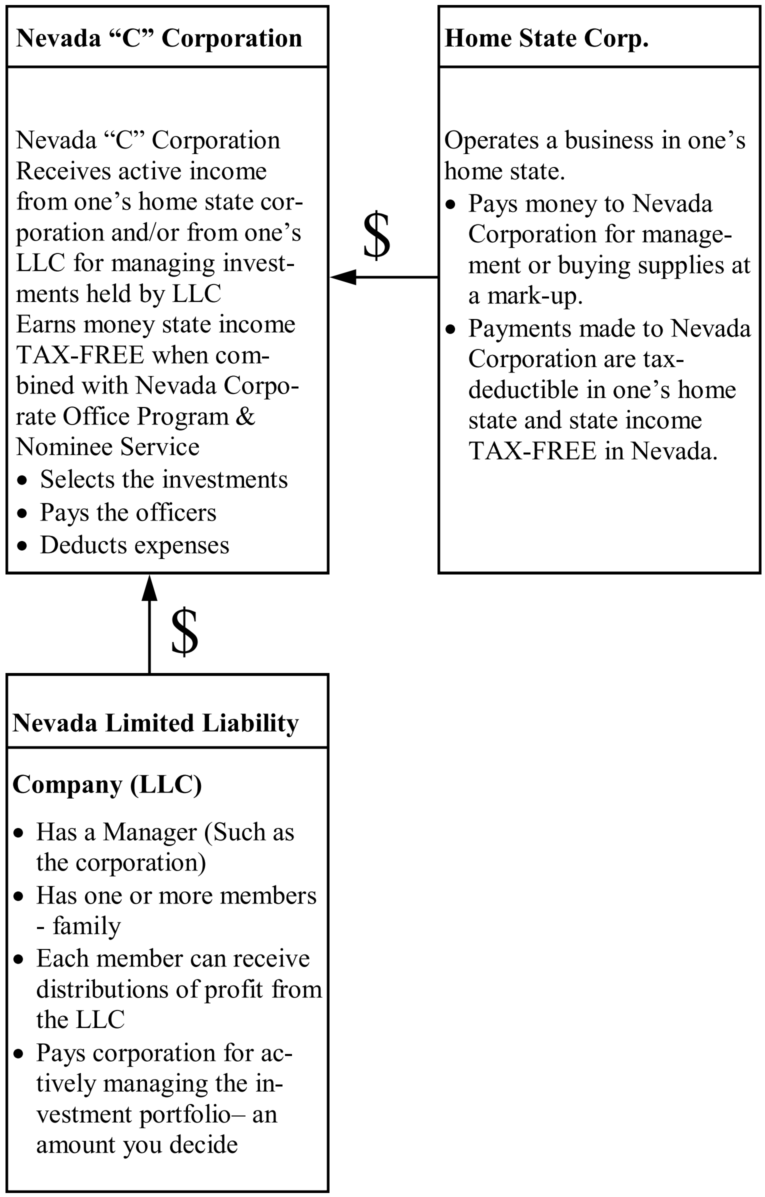


Illustration - Using corporations to reduce state income taxes. (Check with your tax advisor before employing any tax-reduction strategy.)

In order for your Nevada corporation to eliminate state income taxes and take advantage of the income **TAX-FREE** Nevada laws there are some simple rules that must be followed. It must be able to legally prove that the corporation is a legitimate, operating business in Nevada. **To do so, it must pass these four simple tests:**

1. It must have an actual Nevada business address and cancelled checks or credit card statements showing that it has paid for its own business location.
2. Your corporation must have a Nevada phone number.
3. Your corporation must have a business license if applicable to its line of business.
4. Your corporation must have a bank or brokerage account in Nevada.
5. It must have third party transactions (such as the transactions it has with the LLC in our example).

In order for a Nevada corporation to legally earn money state tax-free in Nevada, it must have a legitimate base of operations in Nevada. A PO Box or a mail drop box won't meet the legal tests.

Some will nay-say this strategy, but we know of no case where, when properly employed, this approach has not passed the test. Keep in mind, a corporation is a person separate from its owners. So, like McDonald's Corporation, that, in addition to its central legal structure, operates multiple corporations in multiple states, the principals and the company itself operate as separate units and from multiple jurisdictions. As the wise sage, James Rohn, once said, "Don't be a follower. Be a student." Don't believe everything any one person tells you. Get input from multiple sources, then you decide.

To launch your own office in Nevada would be quite a tremendous expense. So, is there a better alternative?

Companies such as ours provide an affordable service that meets the above legal tests. This service, our company calls the **Nevada Corporate Office Headquarters Program** provides an office space available on an appointment basis, a shared telephone number and contracted employees in Nevada. All of these are elements of proof of a genuine corporate operation in Nevada. We do the legwork to get our clients a local business license and bank
Here is the service our company provides clients;

- A Nevada street address staffed with contracted employees from 8 am to 5 pm Pacific Time Monday through Friday.
- Mail forwarding service
- A Nevada shared telephone number answered by a live receptionist
- A Nevada fax number
- Help opening a Nevada bank account if desired
- Help applying for a Nevada business license
- Live contract employees to greet visitors during business hours.
- Notary service
- Secretarial service

These elements meet the legal test of an actual operating business in Nevada that can allow an out-of-state resident to take advantage of the state-tax-free nature of Nevada law.

Nominee Officers and Directors

In addition to the **Nevada Corporate Headquarters Program**, there is another unique service that gives one a significant extra layer of protection. The officers and directors of US corporations are typically listed in the public records. Many corporate leaders do not want their personal names to be publicly listed, or they want assistance with corporate formalities such as minutes, resolutions and other activities that an officer or director will typically conduct. So, we provide a service for our clients, wherein we assign one of our associates to stand in as the officers and directors of a corporation.

Though you have chosen to have nominee officers for your corporation, **you remain in control.** As a majority stockholder, you can always vote the nominee officers and directors out of the corporation. In addition, your nominee officers do not touch any funds associated with the corporation. **You can retain the signature authority over all accounts.** Your nominees do not have access or signature authority over any corporate account. They simply fulfill the legal requirement for a corporation to have one or more listed officers.

Additionally, there are licensed accountants who provide a nominee signatory over Nevada corporate financial accounts. Naturally, a reasonable amount of due-diligence is required before a company will provide these services to insure that the business is operating in a legal fashion.

In order to legally reduce taxes, provide for legal protection and privacy, one may choose a **Nevada Corporation, the Nevada Corporate Office Headquarters Program** and the **Nominee Service** as a package.

In summary, the corporation provides for lawsuit protection, tax savings and estate planning. In choosing the jurisdiction, one should give Nevada strong consideration.

Chapter 3

Limited Partnerships

Three big advantages.

1. Protects you from lawsuits

A limited partnership, unlike a general partnership, has provisions to keep it from being destroyed or penetrated when one partner is sued. **Assets held inside** of a properly run, properly structured limited partnership can be made **safe from creditors**.

Properly structured, the only remedy a creditor has is to place a "charging order" against your interest in the limited partnership. In theory, any income distribution from the limited partnership that would go to you goes to your creditor.

But here is the beauty of limited partnerships: there are

three big booby-traps that are **allowed by the Uniform Limited Partnership Act** for a properly structured limited partnership.

a. You can have a clause in your partnership agreement allowing you to leave profits inside the limited partnership for its future needs. You can, therefore, make the creditor aware that your limited partnership will **make no distributions of income**. The creditor will receive no payments.

b. As an assignee of the limited partnership, **YOUR JUDGMENT CREDITOR NOW HAS TO PAY THE INCOME TAXES ON YOUR PORTION OF THE PROFITS. THIS IS THE CASE EVEN IF YOU DECIDE TO LEAVE YOUR PROFITS IN THE PARTNERSHIP AND YOUR CREDITOR RECEIVES NO PAYMENT!** (Rev. Rule 77-137.) Yes, you have read correctly. The IRS says that anyone who is entitled to receive the proceeds of a limited partnership must include the income on his or her Federal income tax return whether or not he or she receives such proceeds. (See appendix A for details of Rev. Rule 77-137.)

c. You may alternatively **mortgage or sell partnership assets and distribute the proceeds** to the partners before the creditor puts a lien on your interest in the partnership.

It is almost always best to own more than one limited partnership. Safe assets, such as cash, stocks, mutual funds, etc**., are owned by one of your limited**

partnerships. **Rental properties**, for example, **are owned by your other limited partnerships**. Incidentally, if you have more than one rental property, especially if one or more has a large equity, it might be most prudent to have each one owned in a **separate limited partnership**. It is important to separate "safe" assets from "unsafe" assets. You wouldn't want to own your car in the same limited partnership that owns your cash. If the partnership that owns your car is sued because of a brake failure that causes an automobile accident, for example, you would certainly want to have your cash in a separate limited partnership. It is most sensible to increase the number of limited partnerships. One family set up 34 limited partnerships: 1 for each of their 33 rental buildings and 1 for their cash and other "safe" assets.

There are **two kinds of partners** in a limited partnership. There are **general partners** and there are **limited partners**. **General partners** have total management authority as well as total liability. General partners control the limited partnership. **Limited partners** have no management authority and assume no liability — the most they can lose is the money they've invested in the limited partnership.

Keep in mind, a general partner is different from a general partnership. A **general partner** customarily refers to the person or entity that **manages a limited partnership**. A **general partnership, on the other hand, is a form of doing business** where two or more people establish an association to operate as co-owners of an enterprise.

If you are a general partner, there is a way to protect yourself from personal liability. You accomplish this by structuring your limited partnership so that your corporation or, better yet, your limited liability company stands in as the general partner.

The key to a properly structured limited partnership is **a properly drafted limited partnership agreement**. The limited partnership agreement is a private document signed by the partners involved and is customarily not publicly recorded. Merely structuring a limited partnership is of little value unless the partnership agreement has been properly worded and all formalities are adhered to.

2. Income tax savings

Limited partnerships, themselves, pay no income tax. Income tax is paid by the people or entities who have an interest in the limited partnership. Many families spread income to children or grandchildren age 14 and older who are usually in lower tax brackets. Partnership profits are distributed, usually, in proportion to the ownership interests of the partners. If the parents are the general partners, they can most often decide how much of a proportional distribution, if any, to make to the partners and how much to pay themselves as a salary for managing the partnership. If the parents like, the partnership agreement may be structured so that the parents have the choice of paying themselves all of the partnership profits as a salary and/or a bonus. Such a structure will allow the parents to maximize their income during their lifetimes and eliminate taxes the children incur from the partnership. It will also allow parents to take advantage of the next advantage offered by a limited partnership: estate planning.

3. Estate planning

Many families use a **Family Limited Partnership** for a lifetime of wealth protection. Often, the spouse most vulnerable to lawsuits has, for example, a 1% interest and is a general partner. (An interest in a partnership is essentially ownership in the partnership.) The other spouse has, for example, a 1% general partnership interest and a 10% limited partnership interest. The children share an interest in the remaining 88%. The parents CONTROL 100% of the partnership though they OWN relatively little. The parents decide how much of a salary they get, what happens to the money and property inside the limited partnership, how much of a distribution, if any, is given to the children, etc. The children have little or no say in the day-to-day activities of the limited partnership during Mom and Dad's lifetime. However, when Mom and Dad pass away, the children don't have a big estate tax bill. The reason for this is that the children already owned the majority of the limited partnership before Mom and Dad's death — preferably before the assets contained therein were sizable. That is why it is important to establish your family limited partnership as early in your career as possible.

The **parents' interests in the family limited partnership are best held in their living trusts**. So, when both Mom and Dad pass away, the control vested in the general partner is then given directly to the children.

Chapter 4

Limited Liability Companies

For many years, business people and tax planners have desired a business entity that offers **flow-through taxation and limited liability for the business owners**. The Limited Liability Company is an entity that offers these advantages. The Limited Liability Company (LLC) can be thought of as **a mixture between a limited partnership and a corporation**. (If you haven't done so already, please read the sections on limited partnerships and corporations.) In the past, some business people turned to **"S" corporations**, however found that they are **quite restrictive and inflexible** in terms of ownership and offer little if any asset protection from personal lawsuits.

The protective features mentioned above for the limited partnership are similar to a properly structured LLC. A creditor can attach your interest in an LLC (called a charging order) but cannot get any money out unless you decide to take it out. And you, as a manager of an LLC, can decide to stop disbursements from being paid if you are sued. Thus, your creditor gets nothing of value out of your LLC. However, **even if he receives no payment**, the creditor who was granted a charging order is required by the IRS to pay the income taxes on what would have been your portion of the profits of the LLC.

For example, let's imagine you hold a 30% interest in an LLC that makes a $100,000 profit. Let's say your creditor has a charging order against your 30% interest. If you decide to leave your $30,000 portion inside the LLC, your creditor must pay the federal taxes on this $30,000 even though he is unable to touch the money! However, your funds are not forever trapped inside your LLC. There are ways for you to withdraw these funds for your personal use. Under these circumstances, you may be able to take money out by taking out a loan from and borrowing money from the LLC. Alternatively, you may pay a spouse or family member or work as an independent contractor of the LLC and be free from creditor attachment. Check with your attorney or accountant.

LLC's have an added benefit. With a Limited Partnership, you always have at least one general partner with full liability. With LLC's however, there is **ordinarily no partner** (or *member* as one is called in an LLC) **who has personal liability for the acts of a properly structured, properly run LLC**.

Those who have an interest in an LLC are called **"members."** There **are two kinds of members** in an LLC. There are **members and member-managers**. LLC's can be structured so that only some of the members are managers or so that all of the members are managers.

In addition, members can elect to have a manager who is not a member of the LLC.

The first LLC statutes in the United States were instituted in Wyoming in 1977. Florida adopted LLC statutes in 1982. Then, **in 1988, the IRS allowed the properly structured LLC to be taxed as a partnership instead of a corporation** (Rev. Rul. 88-76). After this favorable IRS ruling, as of mid-1996, all 50 states have enacted LLC legislation.

Unlike a corporation, LLC's generally do not have a perpetual life. The life of an LLC is typically no more than 30 years; at which time another LLC can be formed to take over the business.

LLC's have become a very popular form of operating for small businesses. They are also popular asset protection devices in which to own "unsafe" assets such as an automobile or liability-prone equipment to provide a shield to protect yourself from legal exposure.

It is usually wise to make sure that **your business that has liability exposure owns little in the way of assets**. For this reason, it is **often advisable to have more than one LLC**. You use **LLC #1**, for example, to **do business with the public and hire employees**. LLC #1, therefore, is exposed to liability. Then you use another LLC; in this example, LLC #2. **LLC #2 owns your business equipment used by LLC #1.** Then, LLC #1 leases its equipment from LLC #2. When the business you operate in LLC #1 gets into a lawsuit, there will be very little for the suing party to seize.

Chapter 5

Limited Liability Limited Partnerships

An LLLP is a Limited Liability Limited Partnership. The big benefit of this entity is that it protects the partners from liability when the partnership is exposed to a lawsuit. It also provides asset protection. That is, when the partners are sued personally, the assets held inside the partnership are protected from being taken by the judgment creditor of a partner. This type of partnership also provides limited liability for the general partners of the limited liability limited partnership. This is unlike a limited partnership, where the general partners are jointly liable obligations of the partnership. Limited partnership law and the limited partnership agreement remains in effect. The longstanding asset protection case law history provided for by limited partnerships are used to provide support the asset protections inherent in the law for this entity.

This entity is different than a limited liability partnership (LLP). The LLP is generally used in law firms, accounting firms and architecture firms. The partners remain vulnerable to business lawsuits but this structure segments one practitioner's liability from that of the other partners. In contrast, the LLLP, as we have discussed, protects partners from business liability.

Forming a Limited Liability Limited Partnership

In many states a Limited Partnership may be converted to a Limited Liability Limited Partnership. If one does not posses a limited partnership, a new LP can be formed. The limited partnership may then be converted to a limited liability limited partnership by a vote and amendment to the partnership. Amendment documents must be filed in its state of formation and the states of foreign qualification, if any. In most states the partnership will continue as the same legal entity that existed prior to its restructuring, but under a different type of structure. Many states are beginning to recognize the Limited Liability Limited Partnership.

LLLP Advantages

General Partners have limited liability similar to shareholders of a corporation. This liability protection does not change the benefits of the partnership such as partnership taxation which is not available to one who incorporates. So, this type of structure is ideal for owning real estate investments.

LLLP Provides Asset Protection

Limited Partnership asset protection law maintains a vast history of "case law" proving that the LP provides asset protection when the owners of an LP are sued. However, the LP has a legally vulnerable "general partner". When the business is sued this entity carries with it the strong asset protection inherent in LP statutes and also has the advantage of providing liability protection for the one holding the position of "general partner" on behalf of the LLLP.

How to Form an LLLP

Forming an LLLP is somewhat similar to incorporating, yet there are several additional steps. Special articles and amendments are filed with the appropriate state government agency. Legal endings are as follows: Limited Liability Limited Partnership, LLLP, or L.L.L.P.

We often form an LLLP with a limited liability company as the general partner. Because the LLLP is a partnership, it requires two or more parties. One of the parties can be a human being. The other party can be that human being's LLC. Plus, there are states that do not yet have their own LLLP statutes. In these states the entity may be recognized as an LP. So, when utilizing an LLLP in a state without LLLP laws, the LLC can also provide protection for the potentially vulnerable general partner.

Chapter 6

Living Trusts

There are three main benefits to a funded living trust:

1. Probate can be avoided

Probate is the legal process of distributing property from one who has died to others. It can also involve proving that a will was signed and executed according to legal statutes and that it is valid. During the process, property is distributed and claims are resolved. Most always, there are attorney fees as well as court costs associated with taking a will through probate. In addition, those who are to receive the proceeds of a will are unable to receive those proceeds until a probate court has allowed them to be distributed. This process can tie up the proceeds from a few months to several years.

If your heirs bring your will to your bank and attempt to withdraw money after your death the bank will not allow the funds to be touched until the probate court grants the bank permission. With a properly drafted living trust, on the other hand, those who you name in the trust can generally go to the bank, bring a copy of your trust along with their identification and your death certificate and withdraw funds immediately in accordance with the trust agreement.

2. ***Lawsuit protection***
   Lawsuit protection can be given to married people when assets are held between two trusts. Assets in a properly drafted trust for the wife can be insulated from the acts of the husband, for example.

3. ***Sheltering your estate***
   You can to shelter all or a large portion of your estate when you have conformed with sections 2056 and 2041 of the IRS tax code.

Having property or money in your revocable living trust does not require you to change your federal tax filing. It is analogous to you wearing a different colored hat. **You simply file your taxes the same way you did before you had your trust.**

There are two ways to put property into a trust.

1. **You change the title to the property.** For example you go to your bank, bring your trust document and ask the banker to transfer your accounts into your trust. You can also fill out a simple "quit claim deed" and transfer your real estate from your name into your trust.
2. **You list the property on a "schedule 'A.'"** A schedule "A" is a piece of paper that is usually attached to the back of your trust. It simply describes the property that you would like to have included in your trust. For

example, "The brown china cabinet" or "The red antique clock from Germany" or "My Hewlett Packard printer model # JJ54436." Each time you change your schedule "A" it is best to also have it notarized. Many people update their schedule "A's" once a year or when they buy expensive items.

It is often best to do both of the above when possible. For example, ask your banker to change the title to your bank account into the name of your trust and also list "Bank of America account # 00533-01242" on your schedule "A."

You can modify your revocable living trust at any time. You can be the trustee. (The trustee is the one who manages the trust and holds legal title to the property in the trust for the benefit of another person - or himself/herself - and who is required to follow the directions outlined in the trust document.) That is, **you** can **control your trust**. You can change the beneficiaries as many times as you like. (Beneficiaries are those who receive the proceeds of your trust— usually upon your death.) If you like, you can have another person or company act as the trustee to perform the duties under your direction. You can also change who the trustee is at any time. You can put money or property into your trust or take it out of your trust.

Many people who have real estate holdings title each property in the name a different trust. Then they have a company who provides trustee services stand in as the trustee. The trust has a name that is not associated with the one who had the trust set up (for example, Companies Incorporated. Trust # 24775) so if anyone does a title search in the public records, the one's name who holds the beneficial interest in the property does not appear.

Owning property in a revocable living trust does not provide you any more actual lawsuit protection than owning the same property in your own name. That is why **many use the living trust in combination with an asset protection device**. Many people hold title to their limited partnerships in their trust. For example, the parents hold their 15% general partnership interest in their trust. Then their children share the remaining 85% limited partnership interest.

Though the trust does not provide asset protection from personal lawsuits, a properly structured limited partnership does (see above). Then, when you pass away, your general partnership interest can go to those whom you name, such as your children, without having to go through expensive and time-consuming probate procedures.

We highly recommend that you review all trusts in detail with a knowledgeable estate-planning attorney before implementing them into your estate and/or financial plan. Laws vary and change from time to time and your specific needs may vary.

Chapter 7

Children's Trusts

There are many kinds of children's trusts but the one known in tax arenas as the 2503 "C" trust is one of the most useful. There are three major advantages:

1. ***Lawsuit protection***
   Customarily, the assets within this type of trust are not susceptible to lawsuits, judgments and bankruptcies of the parents or other creators of the trust. It is important to establish this kind of trust in a sufficient time period before a legal threat occurs. A word of warning, however; a parent, a blood relative or a controlled employee should normally **not** be the trustee of this type of trust. The reason is as follows: a creditor who has obtained a money judgment against you is generally entitled to stepping into your shoes and obtaining the same funds that you are able to obtain. If you were personally able to withdraw funds from the trust and spend them as you chose, your creditor would have the right to do the same. The courts, similarly, will deter-

mine whether or not the relationship between you and the trustee is so close that the trustee might as well be you. If the trustee is your spouse or your mother, the courts would generally allow your creditors to seize the assets inside the trust. Courts therefore closely examine the relationship to determine if the trustee is at arm's length from you or merely your alter-ego. However if the ability to withdraw funds is at the discretion of a properly selected trustee and not yours, your creditors would generally not be able to step into your shoes and do the same.

2. ***Income tax advantages***

A major tax advantage exists in that the children's trust may own such assets as a computer which, in turn, can lease this equipment to the father's company to be used in his business. As an illustration, a children's trust can purchase computers, typewriters, desks, etc. In short—the business of the parents now makes payments to the trust to lease this equipment. These lease payments can now be written off as an income-tax deduction to the parent's company under Section 162 of the tax code. What this means is that, if put to use, thousands of dollars of taxable income are now shifted to the children, age 14 or over, who are likely in a lower tax bracket. Keep in mind that even if the children are under age 14, they can still make over $1,000 without being taxed at the custodial parent's higher tax bracket. Additionally, this type of trust can be set up to pay for a child's education. This allows the parents to take a tax write-off for indirectly paying for a child's schooling. (Check with your accountant.)

3. ***Estate planning advantages***
   The assets owned by the children's trust are customarily outside of the parent's estate and thus not susceptible to the estate taxes of the parents.

One family, we learned, used a Children's trust to a tremendous advantage. The father and mother were in the construction business. When the construction industry came under extreme financial pressure, **the couple** lost their business and both **filed for personal bankruptcy**. The bright side is that **the children's trust assets exceeded one-million dollars**! Moreover, the children's trust had been established and capitalized in a sufficient time period before the bankruptcy. Therefore, even though the creditors were aware of the trust, **the assets inside the children's trust were beyond the reach of the parent's creditors. After the bankruptcy, the parents then borrowed money from the children's trust and started all over again!**

Chapter 8

Foreign Trusts

The foreign trust combines the powerful asset protection advantages of an irrevocable trust with the favorable laws of an overseas country. The trustor (the one who creates the trust, also called "settlor") conveys assets into the trust and designates the trustee (the one who manages the trust) and beneficiaries (the ones who benefit from the trust). There are three jurisdictions whose laws strongly favor this kind of trust: the Isle of Man, the Cook Islands, and the island of Nevis. These jurisdictions are politically strong and have laws favorable to foreign investors.

In any of these three islands you can establish an irrevocable trust and can name yourself as the only beneficiary. Your trustee must live in the jurisdiction. You can also replace an unsuitable trustee. Moreover, you can legally require the trustee to take your direction regarding trust investments. Therefore, you essentially remain in control of the trust and keep its asset protection provisions.

Here is the major advantage of a foreign trust: It keeps assets out of reach of a creditor. These islands are extremely protective of trusts. **Since a judge in the U.S. does not have jurisdiction over foreign citizens, the judge cannot compel the foreign trustee to release funds to your judgment creditor. Moreover, none of the above jurisdictions recognize judgments originating in the U.S.** So, new litigation must be initiated there to reach the assets. Furthermore, laws in certain foreign jurisdictions place numerous obstacles in the way of those who attempt to bring suit when an asset protection trust is involved. In Nevis, for example, a judgment creditor must put up a $25,000 deposit in order to bring suit against you in Nevis. Then it must prove beyond the shadow of a reasonable doubt (an extremely high legal hurdle) that assets were transferred into the trust in order to defraud the creditor.

In the Cook Islands, the statute of limitations for fraudulent transfer is one year or two years after the underlying cause of action. So, by the time a lawsuit, appeal and/or bankruptcy proceeding is brought to completion in the U.S., the statute of limitations in the foreign jurisdiction bars the suit! Some have even used foreign trusts to protect assets from bankruptcy. (Be sure to check with a knowledgeable attorney before taking such action.)

It is most prudent to keep the assets held by your foreign trust in an offshore location beyond the reach of U.S. courts. You would not want to hold title to domestic real estate inside a foreign trust, for example, because U.S.

courts have jurisdiction over U.S. real estate. U.S. courts, therefore, have the ability to demand seizure of such assets. The foreign trust is better suited for overseas bank and brokerage accounts. (Incidentally, many offshore tax havens, such as Switzerland, have stronger, more stable banking systems than the U.S.)

One wise asset protection strategy includes a combination of the foreign trust and a foreign limited liability company. For example, assets are held in Nevis LLC. The **foreign trust is given a 100% membership interest in the LLC**. **The U.S. resident is designated as the manager of the LLC.** Remember, the manager of the LLC can have legal control over the entire LLC. **Therefore, the U.S. resident controls 100% of the assets, yet "owns" none of them. They are owned by the U.S. resident's offshore trust.**

Upon the event of legal duress, the licensed, bonded trustee is duty bound, under the terms of the trust, to temporarily remove the manager until the event of legal duress passes. This way, when a U.S. court orders the release of funds, the trustee, being outside of U.S. jurisdiction, can refuse to comply and the assets are beyond the reach of the U.S. courts. When the legal duress sufficiently subsides, the client is restored as manager.

Chapter 9

Foreign Corporations

For ultimate privacy a foreign corporation offers some outstanding benefits. With a foreign corporation in one of the tax havens**, the officers and stock holders are not a matter of public record**. You can even have nominees stand in the place of the stockholders. The nominees can even serve as the officers or directors and the actual owner can maintain control by way of proxy votes. This is a very effective manner of operating if you want your association with an offshore bank kept private. In nearly all offshore havens this makes it nearly impossible for a government or private litigant to find out who the actual owner is.

Another manner in which to secure secrecy is through the use of bearer stock certificates. Bearer shares are similar to cash in that they are not issued to a specific individual. The true owner of the certificates is the one who has possession of them. Though the IRS cannot discover who is the actual owner of the shares, U.S. stockholders are still required, by law, to pay taxes on the profits of the company.

It is important to emphasize that we support the use of such corporations to be used only for legal purposes. That is why we chose countries with respectable reputations and high regard for U.S. and international law. We wanted to steer clear of money laundering, tax evasion and drug trafficking that are all too common in many offshore domiciles. Therefore, we have conducted extensive research to find truly law-abiding, peaceful countries in which to give our clients privacy and protection. Though the countries that we have chosen are beyond the scope of this book, you are welcome to contact us for details if you have decided that going offshore is for you.

For the above reasons and more, foreign corporations can be thought to offer the utmost in privacy.

Chapter 10

Putting It All Together

Using a combination of the above entities can provide you with superior financial protection. Though we cannot give legal advice—only your attorney can do that—the following is a useful guide to take to your attorney and to tailor to your situation.

1. *Living Trust*

The basis of your asset protection and estate plan is your living trust. Your properly drafted living trust eliminates estate-consuming probate and attorneys' fees. Your living trust also holds title to the controlling interest in your asset protection devices so that upon your death they can be passed directly to your spouse, children or loved ones.

2. Corporation

Your corporation has several tax deductions available to it such as medical expenses, life insurance, home office & utilities deductions, retirement plans, etc. (See your tax advisor for details.) The life of a corporation can be perpetual. Moreover, there are provisions in a properly run, properly structured corporation to protect you from liabilities of your corporation. We feel it is the ideal entity in which to operate your business.

Which state is the best in which to incorporate? In the past, Delaware had the most protective statutes. Now, many experts feel that Nevada and Wyoming have surpassed all other states as the ideal state in which to incorporate. Nevada and Wyoming offer superior protection to the officers of the corporation. There is also no corporate income tax in the states of Nevada or Wyoming. The owners of shares of stock in a Nevada or Wyoming corporation are not a matter of public record. There are more corporations being formed in Nevada and Wyoming every year. Note that a U.S. corporation formed in one state can do business in all other states, usually with minimal registration requirements.

3. Limited Partnership

Your limited partnership can own your “safe assets,” such as stocks – including the stock in your own corporation – cash and personal accounts. You are protected from liabilities **incurred by your business** by running your business as a **corporation**. You are protected from **personal liabilities** by having your investments in a properly structured, properly run **limited partnership** (LP). Remember, those trying to sue you can only get a "charging order" against your LP on the money which would go to you. In addition, you, as the general partner, can decide not to make distributions out of the LP, rendering the charging order worthless. You can also have an LP for each piece of investment property you're involved with so that creditors cannot take them away from you. Moreover, if one of the properties incurs liability, it doesn't draw the others into the battle.

A FAMILY LIMITED PARTNERSHIP where the mom and dad are the general partners and control the partnership and the children are the limited partners is becoming increasingly popular by those who know their asset protection and estate planning.

Which state do we prefer the most? Our favorite state is Arizona with Wyoming and Nevada being the second and third choices.

The key to a properly structured limited partnership is a properly drafted partnership agreement. Merely structuring a limited partnership is of little value unless the partnership agreement has been properly worded. Additionally, there are a few, relatively simple, formalities that must be observed. One such formality is the holding of an annual meeting. The meeting may take only a few moments. Then the minutes of the meeting are written down and signed by the partners in attendance. The minutes of the meeting may perhaps be merely a sentence or two.

4. *Limited Liability Company*

A limited liability company (LLC) is the ideal vehicle for small business. It provides the liability protection of a corporation and the asset protection of a limited partnership. Your limited liability company that does business with the public and hires employees should have as few assets as necessary and should lease its equipment from another one of your limited liability companies.

A limited liability company also makes an ideal general partner for your limited partnerships. Since the general partner incurs the liability in a limited partnership, having your limited liability company stand in your place can shield you, personally, from such exposure.

Since Wyoming has had limited liability companies available longer than any other state and has strong laws protecting members and managers of an LLC, we feel it is the state of choice.

5. *Limited Liability Limited Partnership*

A limited liability limited partnership (LLLP) is used to own real estate or to operate a business. This is a fairly new entity type in the US as of this writing. It uses the longstanding limited partnership asset protection laws. Plus it has the benefit of providing legal protection for the general partners when the entity, itself, is sued. Consider converting a limited partnership to an LLLP.

6. *Children's Trust*

One of the last few tax shelters, a children's trust can be used to pay for your children's education, while giving you the tax deduction. For example, a children's trust can purchase items used by the parent's business and lease the equipment back to the parents. These lease payments can be tax deductible to the parent's business. The children's trust can then pay the children's tuition. (Check with your accountant.) The children's trust can also be used to shift income to children in a lower tax bracket. In addition, assets inside a timely established and funded children's trust are generally beyond the reach of lawsuits, judgments and bankruptcies of the parents. A parent, blood-relative or controlled employee should not be the trustee of this type of trust.

7. *Foreign Trusts*

A foreign trust transfers certain controls to a foreign trustee who is beyond the reach of domestic courts. In certain countries, you can retain some degree of control over your trust while at the same time keeping its asset protection features. Safety constraints may also be placed in a properly drafted foreign trust so that a foreign trustee is not able to make major decisions with trust funds without your approval.

8. *Foreign Corporation*

A foreign corporation is an advanced asset protection device to keep your foreign bank accounts and other holdings private. The countries which we utilize are prevented, by law, from revealing the owner of the corporation. Again, though they may not know that you have an interest in the company, the IRS does require you to pay taxes on the profits of a foreign company controlled by US tax payers. (See your knowledgeable tax advisor.)

Feel free to call us for details as to the countries which we believe to be most beneficial. Our telephone number is 1-800-COMPANY (1-800-266-7269).

It is my hope that this book is useful to you and that you will use it today to help protect your assets from the ravages of lawsuits. The average person in the Unites States experiences five lawsuits in his or her lifetime, one of which will demolish him or her financially unless the proper steps have been taken in advance. Additionally, because of advances in the IRS computer system, IRS seizures are at an all time high. So, it is more important than ever before to find way to regally reduce your tax bite. Though we live in a litigious and tax-ridden society, I hope one message is clear. When you arrange your financial affairs, using the proper tools, you and your loved ones can have a stronghold to protect yourself against the perils that, indeed, lurk all around us. Now that you are armed with the knowledge, it is up to you to take action to see to it that your finical castle is built properly. Having the knowledge is not enough. We never know if a lawsuit or loss of a loved one is just around the corner. You must take action now and put the proper legal tools to work for you today.

Wishing you and your loved ones a strong and secure financial future.

KW

Bullet Proofing Your Business
Maximizing Your Asset Protection
and Minimizing Your Taxes

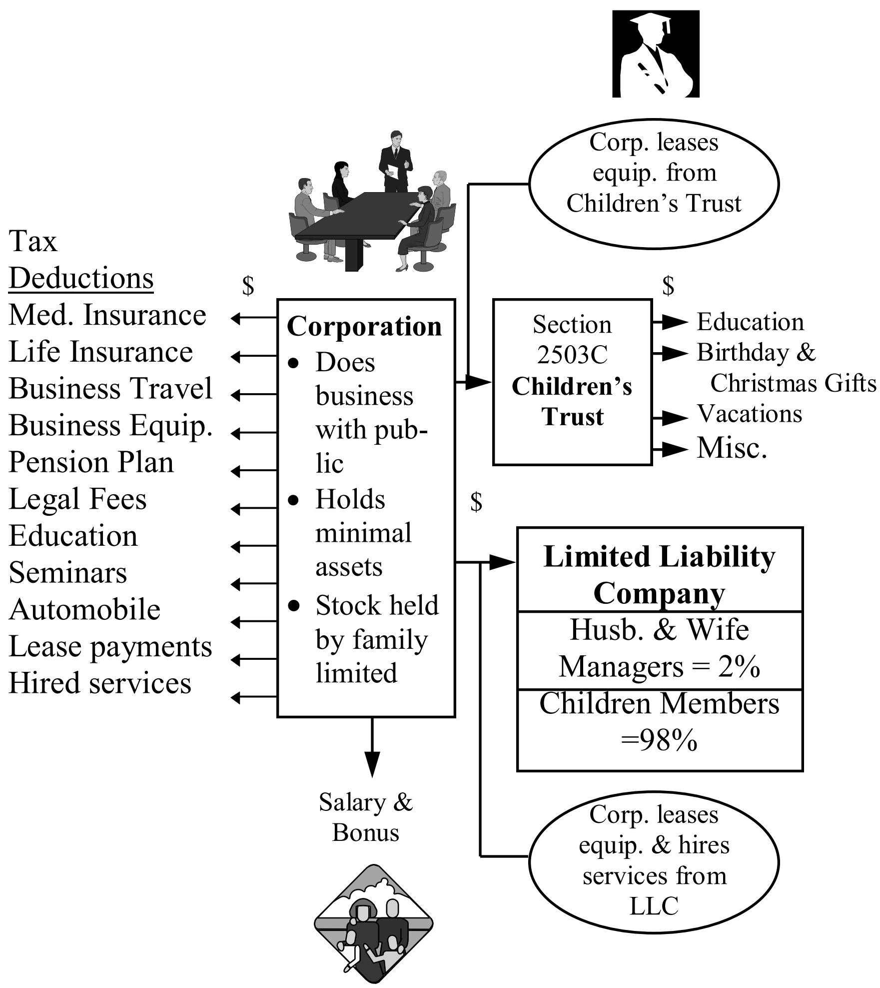


Figure 1

Bullet Proofing Your Personal Assets
Protecting Your Personal Assets
and Planning Your Estate

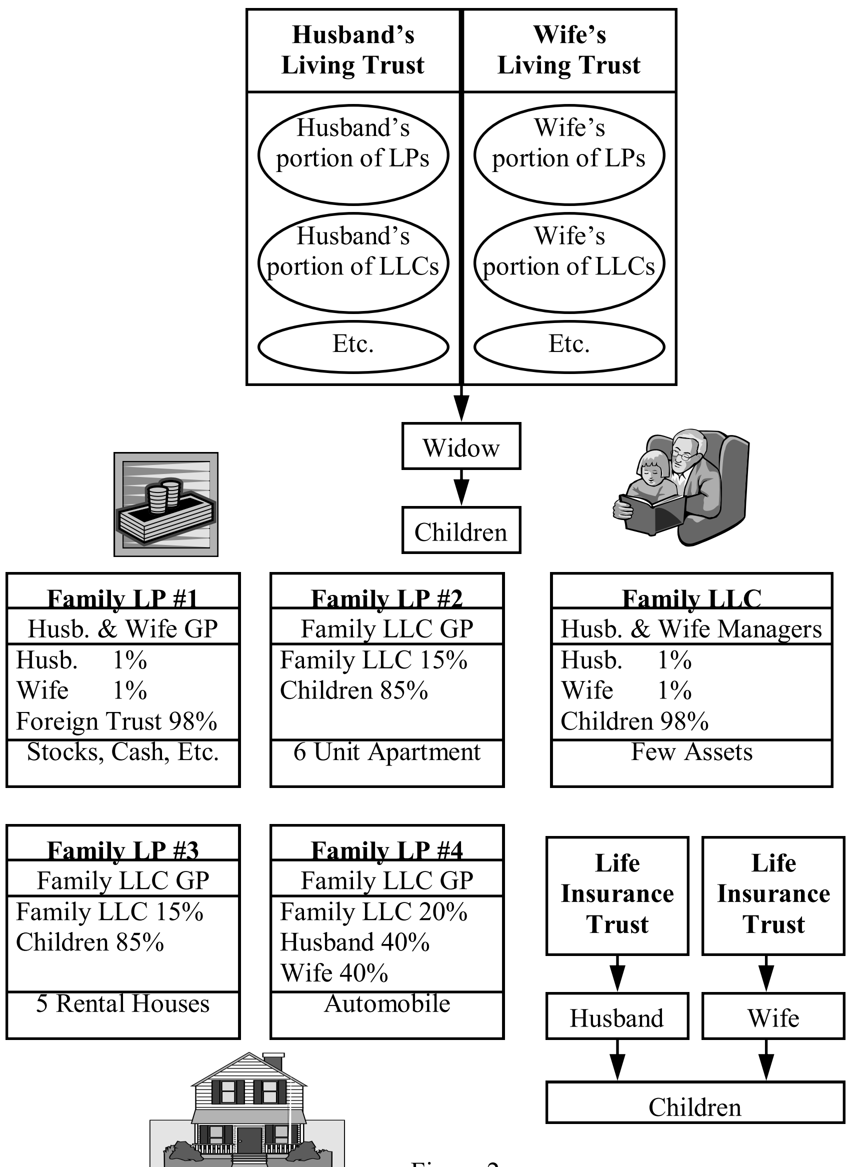
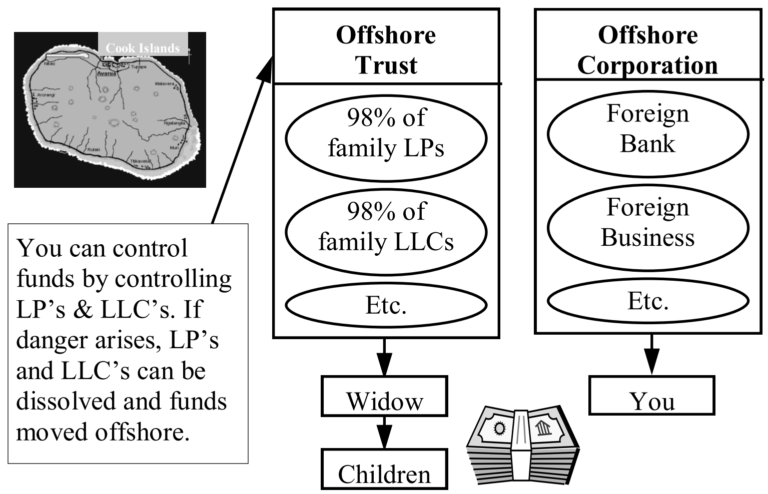


Figure 2

Advanced Asset Protection

Taking Advantage of Protective
Legislation of Offshore Safe Havens



(See your tax and legal advisor to insure you stay in compliance with local and international laws.)

Figure 3

Appendix

Below is a copy of Rev. Rul. 77-137. If a creditor obtains a judgment against an individual who is a partner in a limited partnership, the creditor may be granted a "charging order" against the debtor's interest in the limited partnership. A charging order theoretically entitles the judgment creditor to the same distributions of income as the debtor had been entitled. However the judgment creditor may not step into the shoes of the general partner (who manages the limited partnership) in a properly structured limited partnership. This holds true even if the general partner is the one who incurs the judgment. The general partner maintains control of the limited partnership. Moreover, the general partner may decide to stop all distributions of income, rendering the charging order worthless. The money builds up inside of the limited partnership free from creditor attachment. This money can be taken out of the limited partnership through legitimate loans to partners.

Limited partnerships, themselves, pay no taxes. They are "flow-through" entities for tax purposes. The IRS will not allow profits to grow inside a limited partnership tax free. So, taxes are paid by those who have an interest in the limited partnership. A judgment creditor who has been granted a charging order has an interest in the limited partnership. Therefore, the judgment creditor is required by the IRS to pay federal income taxes on its share of partnership profits. The taxes are due even if the general partner (who could be you) decides to keep the profits inside the limited partnership. That is, taxes are owed by the judgment creditor even if the judgment creditor receives no payment.

We have included Revenue Ruling 77-137 for your reference:

Rev. Rule 77-137

A, a limited partner in a limited partnership formed under the Uniform Limited Partnership Act of a state, assigned the limited partnership interest to B. The agreement of the partnership provides, in part, that assignees of limited partners may not become substituted limited partners in the partnership without the written consent of the general partners. However, it also provides that a limited partner may, without the consent of the general partners, assign irrevocable to another the right to share in the profits and losses of the partnership and to receive all distributions, including liquidating distributions, to which the limited partner would have been entitled had the assignment not been made. Under the terms of the assignment A, who was the nominal limited partner under local law, agreed to exercise any residual powers remaining in A solely in favor of and in the interest of B.

Held. even though the general partners did not give their consent to the assignment, since B, the assignee, acquired in essence all the dominion and control over the limited partnership interest, for Federal income tax purposes B is treated as a substituted limited partner. Therefore, B must report the distributive share of partnership items of income, gain, loss, deduction, and

> Held. even though the general partners did not give their consent to the assignment, since B, the assignee, acquired in essence all the dominion and control over the limited partnership interest, for Federal income tax purposes B is treated as a substituted limited partner. Therefore, B must report the distributive share of partnership items of income, gain, loss, deduction, and credit attributable to the assigned interest on B's Federal income tax return in the same manner and in the same amounts that would be required if B was a substituted limited partner.

Case law supports this ruling in Jackson v. Commissioner, 81,594 T.C.M. (P-H) (1981), wherein the court held, "if an assignee is determined to be a partner for Federal income tax purposes, he is liable for taxation as a new partner." Also see, A. Willis, J. Pennel, P. Postlewaite, Partnership Taxation. §2.03, at 2-11 (3d ed. 1981).

Finally! You can have total financial protection and be 100% judgment-proof!

Insider's Guide to Asset Protection uncovers little-known secrets that can be used to protect your and your family's economic resources from any financial attack. Get started today!

You will learn how to:

- Ward off many lawsuits before they start.
- Protect your inheritance and your estate from the ravages of probate and estate taxes.
- Protect yourself from potential liabilities of your business.
- Protect yourself from lawsuits incurred by those with whom you do business.
- Prepare now so you can keep what you have even if you do lose a lawsuit or have creditors or the IRS pursuing you.
- Keep your assets even if you file bankruptcy.
- Use the family limited partnership for a lifetime of wealth protection.

About the Authors

1-800-COMPANY is well renowned as one of America's leading organizations for asset protection and estate planning.

1-800-COMPANY® is an international firm specializing in asset protection and estate planning for individuals and companies. The firm establishes legal entities used to protect assets from lawsuits, creditors, income taxes, estate taxes, and probate.

Due to its work and innovative asset protection strategies, the 1-800-COMPANY management team is in constant demand speaking to audiences around the nation in his mission to help others to protect their financial resources.

1-800-COMPANY

1-800-COMPANY, LLLP
28015 Smyth Drive
Santa Clarita, CA 91321
Tel. 1 (800) COMPANY
Tel. 1 (661) 310-2925