

LIABILITY SHIELD™

PROPERTY PROTECTION PLANNING

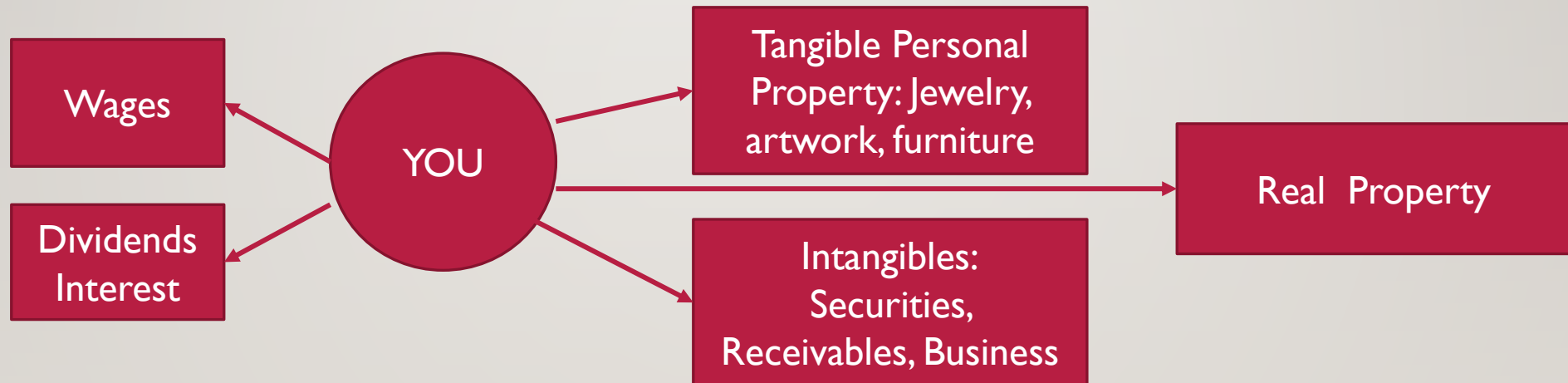
BY:ARTHUR D.WARADY, CPA, ATTORNEY-AT-LAW

WHAT KIND OF LIABILITIES?

- **Financial (civil)** legal responsibility for an act or event
- **Voluntary**, e.g., by contract (loan), becoming a partner
- **Involuntary**, e.g., auto accident, act of another (e.g., your employee or agent)
- **Primary (direct)**, i.e., liability for your own acts
- **Contingent**, i.e., liability for another's acts, such as guaranteeing a loan
- **Vicarious**, *respondeat superior*, i.e., your employee or agent
- **Cross Liability**, e.g., own 2 apartment buildings ↔ loss in one building threatens the other
- **Upstream** ↑ **Downstream**, e.g., my direct liability threatens the buildings I own, or
liability in a building I own threatens me, personally

WHY DO YOU NEED A **LIABILITY SHIELD**?

- Because, **EVERYTHING** you own (tangible or intangible) and your income are At Risk.



COMMON USE OF **LIMITED LIABILITY ENTITIES**

- A **Limited Liability Entity** – may protect the entity owner from Liability arising **within** the Entity, e.g., **Corporation, Limited Partnership** (limited partners), **LLC**
- Limited Liability Entities protect against **Vicarious Liability; not Primary or Contingent Liability**.
- **Limited Liability Entities = Limited Liability Protection**
 - Protection against Cross Liability and, probably against Upstream Liability; but not Downstream Liability (If you are liable outside the entity, then the entity is your asset and it is exposed to lawsuits and creditors).
 - However, depending on type of LLC and jurisdiction of formation, a limited liability company may limit downstream liability to a “charging order”.

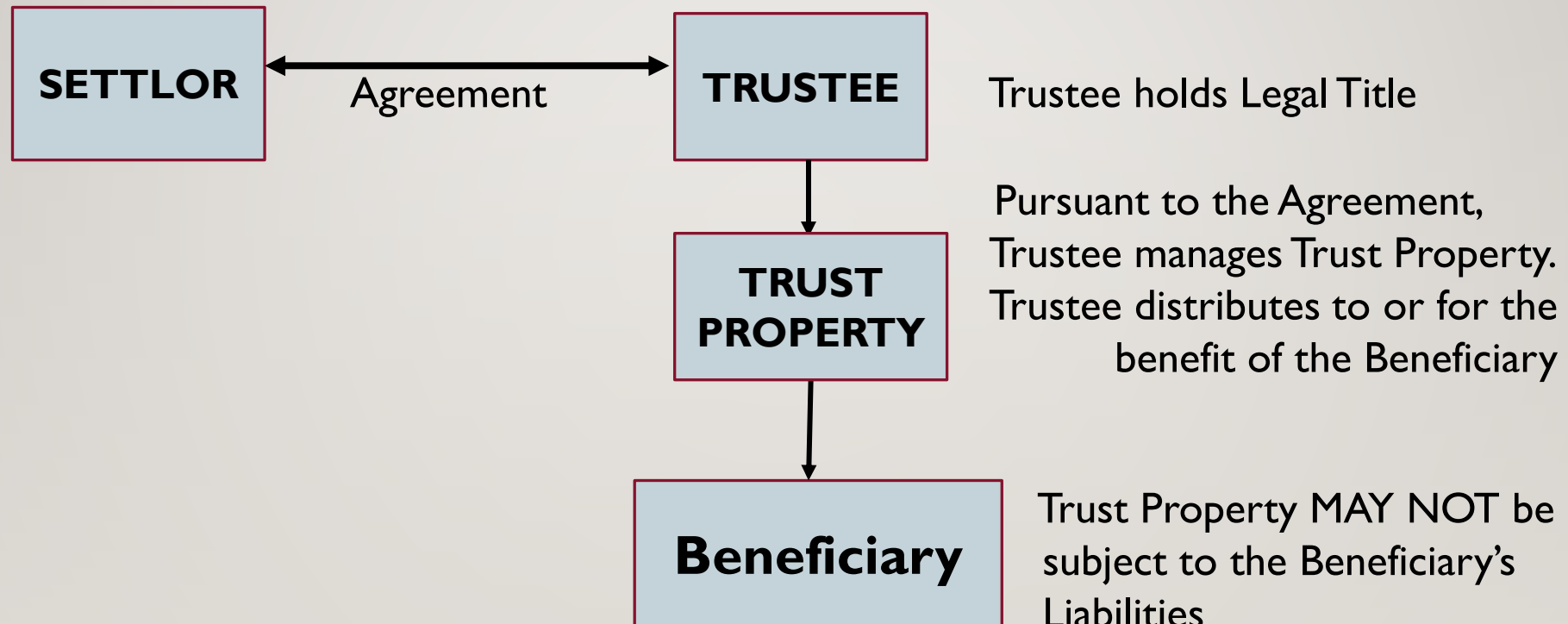
HOW DO YOU CREATE A LIABILITY SHIELD?

- The key to creating a Liability Shield is understanding “property you own”.

WHAT IS “PROPERTY YOU OWN”?

- Unlike the European (French/Spanish) legal systems, the U.S. (English) legal system enables division of property ownership into two components:
 - **LEGAL TITLE**
 - **BENEFICIAL INTEREST**
- Normally, when we speak of ownership, we assume that Legal Title and Beneficial Interest are in the same person or entity
- However, that's not true if the entity is a **TRUST**

WHAT'S A TRUST?



“SPENDTHRIFT”: THE MAGICAL TRUST!

- Trust Property is **NOT** subject to the **Trustee’s Liabilities**.
- Trust Property of a **Spendthrift Trust** is not subject to the **Beneficiary’s Liabilities**.
- The catch: **I cannot donate my property to a Spendthrift Trust for myself as beneficiary to shield it from my own liabilities.**

IS THERE MAGIC TO **PROTECT MYSELF?**

- The **Bad News** is that a Spendthrift Trust will not protect property I transfer to the trust for my own benefit.
- The **Good News** is – Yes, there is another way.
- Depending on the State where it is set up, there is a Special Trust that can **Protect You!**

CONCLUSION: **WHEN SHOULD I CREATE A LIABILITY SHIELD?**

- **NOW!** If you wait for a claim to arise, it's too late.
- Traditional Estate Planning does NOT create a Liability Shield for you.
- You **need a Liability Shield**, IF you:
 - Are in a **high liability business or profession**;
 - Own or are acquiring a **business**; or
 - Own or are acquiring **valuable property**.

Arthur D. Warady, adw@adwlegal.com

ARTHUR D WARADY

ATTORNEY AT LAW & CPA

Interested?

Call or send me an email.

(FL) 305-600-2432

(NY) 646-789-4952

adw@adwlegal.com

Check me out at www.adwlegal.com, LinkedIn, or Google

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