



Exit Planning information & education for America's Business Owners

The Exit Planning Review is an opt-in, bi-monthly newsletter published by Business Enterprise Institute, Inc. This issue is provided to you by your JD Ford & Company professional, [Joseph Durnford](#).

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PUTTING ALL OF YOUR EGGS IN ONE BASKET

We have all heard the old proverb that it's "dangerous to put all of your eggs in one basket." But does the proverb apply in the world of business ownership? Specifically, is it a valid warning or just a worn-out cliché? It seems to make good sense to concentrate all of your business effort and ownership in one entity rather than creating multiple entities to own your business and its operations.

In fact, concentrating all of you business wealth and assets in one entity can instead:

- Make it easier for future creditors to attack and attach all of your business assets;
- Result in unnecessary income taxation and avoidable estate taxation;
- Complicate, not facilitate, key employee incentive planning; and

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Why did Ryan (or why would any owner) create all of these entities when doing so would seem to result in significant additional professional fees?

First, Ryan was concerned about liability exposure as he widened his operations. He predicted that he would not be able to control the operations as closely as he had when he had but a single location. In his mind, lack of control and direct supervision equaled greater risk exposure. Properly designed and implemented, creating multiple entities can limit the risk of that particular operation or that particular asset owned by the Limited Liability entity to the assets of that entity.

Second, Ryan felt that the best way to motivate and to retain key branch managers was to "give them a piece of the pie." He was unwilling, however, to sell or bonus them an interest in the entire business. Of course, they could never afford to buy much of the business. But they could afford to buy an interest in a new entity; an entity in which the assets were confined to the business managed by that employee. It makes good sense to provide ownership

Consequently, delay your exit from the business.

If using multiple entities solves the problems listed above, why, then, aren't more business owners doing it? That's what Ryan DeVault asked us not long ago.

Ryan is the owner of a growing document storage business. He was prompted to meet with us because he wanted to create incentive plans for his key employees. Part of the company's growth strategy was to acquire several locations in a four-state area (for document storage purposes) and to create an incentive plan for each branch location manager.

Of course, Ryan wanted to retain the corporate identity and branding so it had never occurred to him that it might be good tax-planning, good continuity planning and good asset protection planning to create multiple entities. Upon discussion of some of the benefits, however, this is what Ryan decided to do:

- Create a new entity—an LLC (Limited Liability Company) or Subchapter S Corporation—for the business operations at each location;
- Create a new entity, probably an LLC, to acquire the real property at each location; and
- Create an LLC to own the equipment at the various locations (shelving, fork lift trucks, etc.).

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to key employees in only those business operations that they can affect by their performance.

Third, Ryan wished to provide income to his two children who were approaching college age. He wanted income paid to them, in their tax bracket, to pay for college and other expenses. He was also interested in transferring wealth from his estate to their estates while indefinitely controlling both the income and the resulting wealth. To achieve those objectives he created a separate entity to own income-producing assets (such as the equipment LLC, or the real estate LLCs) and assigned to the children a small portion of those LLCs. The children would then receive their distributed share of the income in their income tax brackets rather than in Ryan's.

It goes without saying (almost), that using a multiple entity approach must be carefully considered; you need input from all of your advisors: legal, tax, accounting and financial.

In the next two issues of **The Exit Planning Review** will discuss the use of multiple entities in more detail. As this discussion progresses, you will see how employing a multiple entity strategy will decrease professional fees over time rather than increase them. *Subsequent issues of **The Exit Planning Review** discuss all aspects of Exit Planning. The provider of this Newsletter* (durnford@jdford.com) and BEI's web site

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