



### **“The Corporate Shield With Respect to Failures”**

**André Larabie**

One of the most popular methods of protecting personal assets during times of business failure is to create—or, more correctly, to have created—a corporation. “The corporate shield” refers the protective effect a corporation has on the proponents’ personal assets. These personal assets are shielded from liability events instigated by creditors or by a bankruptcy court.

There are various legal structures you can create to establish such a shield, and possibly you are already familiar with them. All of the following legal entities will give you some level of personal asset protection:

- Corporation
- Limited Liability Company
- S-Corp

A few words of caution are in order, however: once you create such an entity, you need to operate your business and personal affairs within the guidelines of the particular entity you have created. Although there may be a transition period for new businesses during which you may write checks from your personal account to pay for business expenses, and vice-versa, ultimately you need to separate these two activities—business and personal—entirely.

Business expenditures should be paid for from an account that was established for and solely used for business, and personal expenditures should be paid from accounts that are entirely personal. If you continue to carry on by mixing your business and personal affairs, then the shield may ultimately be considered only a false entity by a bankruptcy court.

An aggressive attorney can bring down the shield if you are not careful



# ANDRELARABIE.COM

ARTICLES

with keeping the transactions separate. By showing that you were only using the corporate structure when it was convenient and not using it when it was not. Such an attorney can persuade a judge to remove the shield and open up your personal asset to judgments. In this case, you have wasted your time setting up the entity in the first place.