



### **“Using a Corporate Structure to Shield Personal Assets”**

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**W**hen the business goes bad, you need to be prepared to protect your personal assets. As with most businesses, the owners have personally guaranteed many of the credit accounts, so when creditors come collecting, and there are no assets in the business, they come all the way to your home.

With a corporation in place, your assets are protected from the bankruptcy court and the creditors of the corporation. If you are relatively new to business and reading this article to better familiarize yourself with corporations, then think of a corporation this way: it is as though you were working for the corporation. The corporation is a legal entity, similar to a person. Instead of working for an actual person, you are working for the corporation. So the corporation can go broke, but in the “employee”-like capacity, you do not go broke with it.

The drawbacks to the traditional corporate structure are several: first, all income gets taxed twice. Simply put, since the corporation is a legal entity, it files a tax return just as a person would, and it pays some amount of tax according to the profit it made.

This means there is a double tax-burden on every single dollar made. Each dollar of profit is reported on the corporate tax return, and then when those dollars are passed to the owners of the corporation, those owners must report this income on their own annual tax returns. The shareholders also are paid from the profits of the corporation and they in turn report this income on their own tax returns, so in effect, the money is taxed two times.

This, along with the additional overhead of maintaining a corporation, is the price you pay for the “corporate shield.”