



6 REASONS FOR REAL ESTATE INVESTORS TO INCORPORATE AS AN LLC

If a lawsuit were filed against your real estate business, are you sure your personal assets would be protected?

“Consider the situation in which the owner of an investment property leases it to a tenant who decides to throw a big party, during which one of the tenant’s guests falls over a balcony. In today’s legal climate, it is quite possible that the injured guest would pursue a claim based on the ‘unsafe condition’ of the rental dwelling. More often than not, the owner would be named in any lawsuit resulting from the incident.

“If that rental property were owned by a real estate investor individually, he or she would be named in the lawsuit and would have to defend his or her personal assets from the plaintiff’s claims. In contrast, if that property were owned by an LLC, the owner’s risk exposure would be insulated by the protection of the company, leaving only the assets owned by the LLC (as opposed to all of the owner’s personal assets) exposed to potential lawsuits.”¹

As a real estate investor, you know you have a lot at stake. Incorporating as an LLC can provide numerous protections to help you preserve your personal assets and reduce other key risks that could cripple or devastate your business.

Here are six of the most significant benefits of incorporating as an LLC.



1. REDUCE RISK OF PERSONAL EXPOSURE

If your business is incorporated as an LLC, your personal finances have a veil of protection against lawsuits and creditors. As in the illustration above, if you were to be sued in relation to a property you own, being incorporated as an LLC limits your personal liability. So rather than the lawsuit being aimed at you personally, it will be aimed at the corporation and only the corporation’s assets are exposed. And there is no shortage of potential lawsuits. If a fire were to erupt on one of your properties and spread other places, the corporate veil of the LLC would protect your personal assets from paying for the damages. A testy tenant could cost you untold amounts personally unless the LLC is in place, the title is held by the LLC, and the lease is with the LLC. If a tenant’s guest is harmed, a lawsuit could be pursued. There are many other examples but the point is clear!



2. PROTECT OTHER INVESTMENTS

If each of your properties is held in a separate LLC and a tenant sues the LLC, all your other properties are protected. In Texas, a Series LLC can also provide that protection without the necessity of separate LLCs being incorporated.



3. RECEIVE TAX BENEFITS

Perhaps the most significant tax benefit afforded to owners of LLCs is avoiding double taxation. “Since there is no separate LLC tax, the owner can avoid double taxation on both the rental income generated by the property and the appreciation in value of the property upon disposition. Moreover, the owner of a single-member LLC can deduct mortgage interest similar to a sole proprietor based on current IRS rules.”²



4. PROTECT AGAINST CO-INVESTORS

If your real estate partner should die, become incapacitated, or oppose you professionally, your business risk would increase dramatically unless you have an LLC operating agreement in place. This document allows partners to determine the protocols for disputes or if one owner decides to leave the corporation.



5. IMPROVE CREDIBILITY

Having initials after your name that indicate an education level or certification carries a lot of weight! For the same reason, the term “LLC” being a part of your company name demonstrates that you take your business seriously.

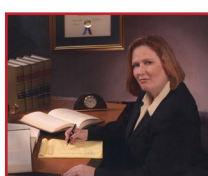


6. PEACE OF MIND

Knowing that you have taken such a significant precaution to protect your personal assets by incorporating can allow you to relax a little better when your head hits the pillow!

Your personal assets need to be separate from your business assets in order to protect you and your family from any of the mishaps that can happen in business. Incorporating your real estate business as an LLC provides the necessary corporate veil to do just that. When each of your properties is incorporated separately, you have additional protection that may save your business should you be sued.

There is one warning, however. You must operate the LLC as a standalone entity with its own identity, i.e., separate bank account, separate books, and accurate paperwork. Otherwise you could lose the “corporate veil” and others could reach your personal assets. A lawyer can help you with advice on how to ensure you are protected.



Written by

Gaylene Lonergan has practiced law for 35 years, is a graduate of Texas Tech University School of Law, and the owner of Lonergan Law Firm, PLLC, and title closing office.

You can contact Gaylene at 214-503-7509 | grogers@lonerganlaw.com or visit her office at 12801 N. Central Expressway, Suite 150 Dallas, Texas 75243