The Secret To Protecting Your Business Assets

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Regardless of the type of business you conduct, there is a significant risk of being sued in our litigious society. Lawsuits can range from claims of negligence to defective products to disputes with employees. Incorporating is a means of guarding against these potential threats.

Single Incorporation - Protecting Your Personal Assets

Incorporating your business is a method for creating a legal wall between your personal assets and business. Any judgment against your business will not impact your personal assets. While your home, savings, stocks, etc., are protected, what happens to your business? If a judgment is rendered against your business, the business assets are as good as gone. This doesn't have to be the case.

Double Incorporation Strategy - Protect Your Business Assets

Many businesses can benefit from pursuing a double incorporation strategy. The strategy is designed to address the situation where a business has significant assets that are exposed to litigation risk. If you incorporate your business, it is all well and good that your personal assets are not at risk. But what if your business has a number of high value assets such as manufacturing machinery, office equipment, popular domain name, custom software or other items? Merely incorporating your business will not protect these assets because they are owned by the business entity. Since a successful lawsuit would result in a judgment against the business entity, all assets of the business could be seized as part of the judgment. In short, you lose your machinery, office equipment, intellectual property or any other item of tangible value. The double incorporation strategy prevents this scenario.

As the name suggests, the double incorporation strategy involves the creation of two business entities. The first is your "at risk" business that interacts with your customers or clients. The second entity, a "holding corporation", is then created to own the valuable assets of your business. This holding corporation then leases the relevant business assets to your "at risk" entity. If the "at risk" entity is sued, the holding company merely recovers its assets and the plaintiff is forced to settle for pennies on the dollar because the "at risk" entity has few assets. In essence, the plaintiff wins the battle, but loses the war.

Most people know that a business entity can be used to create a protective shield for their personal assets. If your business has high value assets, now you can use this double incorporation strategy to protect those assets as well.Richard Chapo is the lead attorney for the law firm http://www.SanDiegoBusinessLawFirm.com - a firm providing legal advice to California businesses. This article is for general education purposes and does not address every facet of the subject matter. Nothing in this article creates an attorney-client relationship