

Protect Your Assets and Save Money!
(Advantages of a Delaware LLC for Owners of Multiple Rental Properties)
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For many years, real estate investors have utilized the Limited Liability Company (LLC) as a means to shield their personal assets from the risks associated with ownership of rental property. In today's world of anxious litigation, injuries or deaths caused by fire, slip and fall, drowning, elevator/balcony collapse, rape, homicide, mold, lead paint, discrimination, and other hazards, your liability can far exceed the limits of your insurance policy. By transferring title of investment property to an LLC, the protection of personal assets against lawsuit judgments is greatly enhanced. The LLC pass-through taxation and lack of corporate formalities contributes to its overwhelming use when compared to alternative business entities.

When there is a judgment against a California LLC, any assets owned by that particular company can be reached to satisfy the judgment. For this reason, it is unwise to place more than one property in a California LLC. A separate LLC for each rental property provides the optimum level of asset protection for the investor. The State of California, through its laws, provides this protection for an annual \$800 minimum franchise tax for each individual LLC.

For investors owning more than one rental property, a State of Delaware Series LLC may offer significant tax savings over multiple California LLCs. Under Delaware corporation laws, a single "Series" LLC can hold multiple independent properties (business cells) which are compartmentalized or kept separate for liability purposes. The profits, losses, and liabilities of each property within the series are legally separated from the others. Yet the Series LLC is treated as a single entity for tax purposes.

The State of Delaware charges \$200 annually for a Series LLC, no matter how many properties are included within the LLC. Since the Delaware Series LLC must be registered in California, the \$800 annual California Franchise Tax also must be paid, for a total of \$1000. In comparison, using an example of an investor owning four separate properties, each with its own California LLC, the annual fee would be \$800 for each of the properties, for a total of \$3200. In this example, the annual potential tax savings using the Delaware Series LLC, is \$2200. (An LLC whose gross receipts exceed \$250,000 annually is subject to an additional gross receipts tax when doing business in California.)

In addition, formation of a single Delaware Series LLC will save considerable legal and accounting fees as compared to multiple California LLCs. When an investor acquires a new property, it can be added to the existing Delaware Series LLC by a simple addendum to the operating agreement. No new legal filings are required.

Delaware enjoys a business friendly reputation among large corporations. Now, individual property investors in California can reap the benefits of Delaware's corporate laws. At this time, only the State of Delaware permits the formation of the "Series" LLC. The State of California, however, is required by Federal law to allow these out-of state corporations to do business within California, so long as they pay the appropriate annual franchise tax fee.

The ability to hold multiple properties in a single LLC, yet insulate the liabilities of each of these investments from the others, makes the Delaware Series LLC a particularly attractive business tool for investors owning more than one property. To be effective, however, it is imperative that the LLC be formed exactly as required by Delaware Code.

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