

Beware of Pure Trusts

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Did you know that Entrepreneurs can use a trust to operate their business which will enable them to NOT pay ANY taxes?

Did you know that Entrepreneurs can use a trust to operate their business which will allow them to bypass virtually ALL gift and estate taxes?

Do you know that Entrepreneurs can use a trust to operate their business which will shield their assets from ALL creditors and judgments?

Did you also know that Entrepreneurs can wear a pair of red slippers, click their heels together three times and have their wishes come true?

Being able to operate a business without paying ANY income related taxes, without paying ANY gift or estate transfer taxes and without having ANY asset exposure is --- Pure Fantasy.

This though is what many Scam Artists around the country lead honest well intentioned Entrepreneurs to believe.

This is a very common Entrepreneurial Scam because the promoters of these scams know that Entrepreneurs are very concerned about taxes and asset protection.

These Trusts are promoted and referred to by many different names including:

- Pure Trusts
- Constitutional Trusts
- Contract Trusts
- Freedom Trusts
- Unincorporated Business Trust
- Unincorporated Business Organization
- Massachusetts Trust
- Equipment Trust
- Service Trust
- Final Trust
- Common Law Trust Organizations
- Foreign Common Law Trust Organizations

Most of the time these Trusts will be promoted under the name Pure Trust, Unincorporated Business Trust or Unincorporated Business Organization but the overall Scam is generally referred to as a Pure Trust Scam.

The Pure Trust Pitch

The basic premise behind these Sham Trusts is disarmingly simple. An Entrepreneur creates one or more "trusts," then transfers his / her assets into them. On paper, the Entrepreneur is now the "manager" of the trust and "manages" all of the trust's assets for it. The Entrepreneur, who is now purportedly the former owner, no longer owns any assets at all--and thus cannot lose them to creditors, tax collectors, etc. But, the Entrepreneur amazingly manages to retain the use of, benefits from and income generated by all of the assets. It sounds too good to be true--and indeed, it is not true.

Purveyors of these Sham Trusts use luring marketing savvy to get people to "purchase" these trusts. Most advertisements on the Internet (or printed brochures) will attempt to convince people of at least five things: 1) pure trusts are legitimate and legal; 2) pure trusts are secrets used by the wealthy to protect their assets; 3) pure trusts guarantee privacy; 4) pure trusts provide asset protection; and 5) pure trusts provide a means of tax reduction or avoidance. While some trust advertisements include additional pitches, these are the five that are nearly always seen.

Pure Trust = Disregarded Entity

The IRS has issued numerous letters that state the following: "A Pure Trust has no tax *requirements*." It does NOT say that income to the Pure Trust is not taxable. It does NOT say that income earned by a Pure Trust can be retained in the Pure Trust. It does NOT even say if a Pure Trust exists!

The IRS treats a Pure Trust as if it does not exist, and that the Entrepreneurs who are involved with it are responsible for the tax. In other words, if an Entrepreneur transfers business earnings to a Pure Trust and it earns \$100,000 in a year, then the Entrepreneur (and NOT the Pure Trust) is responsible for paying taxes on the \$100,000. If the Entrepreneur doesn't pay the tax, then the Entrepreneur will be liable for (a) the tax, (b) penalties, and (c) interest.

Final Point

These trust structures WILL NOT protect an Entrepreneur's assets, protect an Entrepreneur's privacy or allow an Entrepreneur to legally not pay income taxes.

The ONLY benefit to be gained by an Entrepreneur who chooses to use one of these trust structures will be the opportunity to receive an all expense paid trip to -----

“Club Fed”!!!!!!!

About the Author:

Monty W. Walker is the senior principal of Walker Advisory Associates and Hutcheson Walker Advisors. These firms provide strategic business and transaction advisory services to the closely-held business market with the focus of Hutcheson Walker Advisors being innovative retirement strategies. Monty Walker works with Entrepreneurial clients throughout the country advising them in the areas of Business Transactions, Business Structuring & Design, Business Tax Planning and Business Exit Planning. He can be found on the Internet at --- www.waa-online.com