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Plaintiff Attorneys: Have You Considered Structuring Your Fees?

Explore the Many Tax Advantages

A lump sum attorney's fee can be a problem. It is fully taxable in the year of receipt, and frequently puts many attorneys over the threshold for the Alternative Minimum Tax (AMT) where deductions may not be taken. Even if AMT is not an issue, why not take advantage of the tax savings a structured fee can provide?

IRS Endorses Fee Deferral

In *Childs v. Commissioner* the Tax Court (1994) and the Circuit Court of Appeals (1996) overruled the IRS position on structuring attorneys' fees and upheld the validity of the tax deferral. In a more recent (2001) National Office Field Service Advise (FSA), the IRS now favorably cites the *Childs* decision. Although the FSA involves a fact pattern not involving attorneys' fees, the favorable citation of *Childs* by the IRS as well as the IRS' conclusion that "these cases demonstrate that if income is not unqualifiedly subject to the taxpayer's demand, it has not been constructively received" indicates clearly that attorneys' fees may be structured to achieve tax deferral.

Triple Tax-Deferred Interest

Utilizing a structured settlement annuity for deferring your fees provides you with the ability to generate triple tax-deferred interest. Money in a structured settlement annuity earns interest on funds that would have otherwise been lost to taxes in the year of settlement. Tax-deferred interest is earned on the principal, accumulating interest, and taxes deferred at settlement.

Even though the amount is ultimately taxable, deferring fees over time results in more net after tax income to you.

Predictable Income Stream

Because your income can fluctuate from year to year, you may want to consider

deferring some of your fees in order to create a predictable income stream to cover business expenses or other costs.

Boost Your Retirement Plans

We all know the value of getting an early start to secure a comfortable retirement, but how have your investments performed in the current market? It isn't so much a matter of setting funds aside, the trick is holding onto them.

Deferring part of your income to your retirement years will add that extra measure of security. You won't be constrained

Now, even in taxable settlements and whether or not your client chooses to structure, you can usually defer your fees.

by restrictions on the amount you can set aside each year or when you can start collecting the funds. It's like having an uncapped 401(k) plan that you control.

Your Children's Education

Deferring your fees can help you prepare for your children's college expenses. Tuition has been rising steadily and, like any parent, you want to insure that your children get the best education possible. While most education savings accounts are helpful, they do not provide a guaranteed rate of return and are subject to contribution limitations.

Structuring your fees provides you with opportunities for legal tax deferral, creative business and personal planning, and retirement advantages. CCI is ready to assist. Just call to get us involved. •

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