Structuring Your Attorney Fees

For Future Security and Tax Deferral

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Dan Finn
CPCU, CSSC

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Let's face it: Plaintiff attorneys have a roller coaster ride when it comes to cash flow. When the wins come in, you are paid a proper contingency fee. When a dry spell hits, the cash flow stinks!

Especially handling class action and similar cases where the costs associated with developing and trying the case can be high and the time until settlement long.

When you settle, the good thing is you get paid an appropriate contingency fee.

The bad thing is you end up giving a bunch of it to Uncle Sam. Proper planning can help mitigate this tax bite.

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CASE STUDY

Consider the following hypothetical example.

"Abe Laintiff, Esq." expects to claim about $100,000 in taxable income this year. Normally, the 55 year-old attorney earns about $150,000 (28% marginal Federal Tax Bracket) but this has been a tougher year;

He successfully resolves a major lawsuit that will net him $2,500,000 in fees;

He is presented with 2 options:

A
Take the entire $2,500,000 this year

or

B
Structure his Fees

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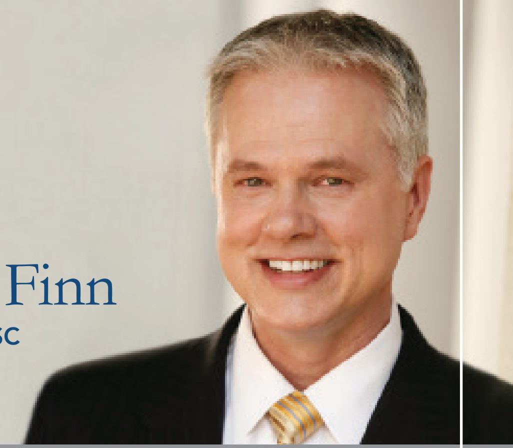
Option A: Take the Cash

Attorney Laintiff is immediately catapulted in the highest marginal tax bracket. For this one year. In California, that is approximately 52.9% (2013 rates) as opposed to his normal combined marginal tax bracket of 37.3%. Quite a difference! This still leaves him with $1,252,750.00 to spend, invest or dispose of howsoever he chooses, however.

But, is this the wisest choice?



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Option B: Structure His Fee

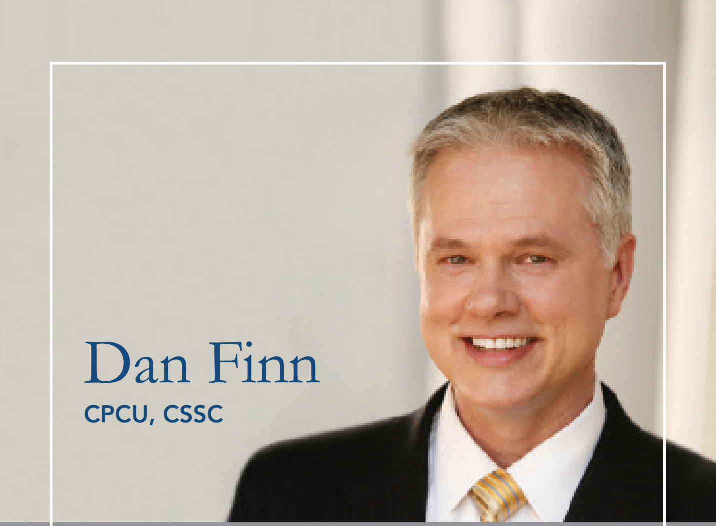
"I started structuring my fees (which) gave me confidence that I could quit and go onto the bench and do some other things besides practicing law."

Jerry Whitehead
Former Nevada Supreme Court Justice

While $1,252,750.00 is a decent chunk of change, he's unhappy that he had to give half of his $2,500,000.00 fee to the Federal and State governments all at once. This is especially troublesome since his inventory of cases is dwindling and he does not anticipate having this kind of pay day again anytime soon. In fact, he is considering slowing down his practice and going into semi-retirement anyway. He might even move to another state where taxes are lower.

"More and more, we're seeing attorneys, for obvious tax reasons, wanting, especially on larger cases, to defer their taxable result in terms of a fee they might earn on a case by structuring that."

William T. Robinson, III
Past President - American Bar Association



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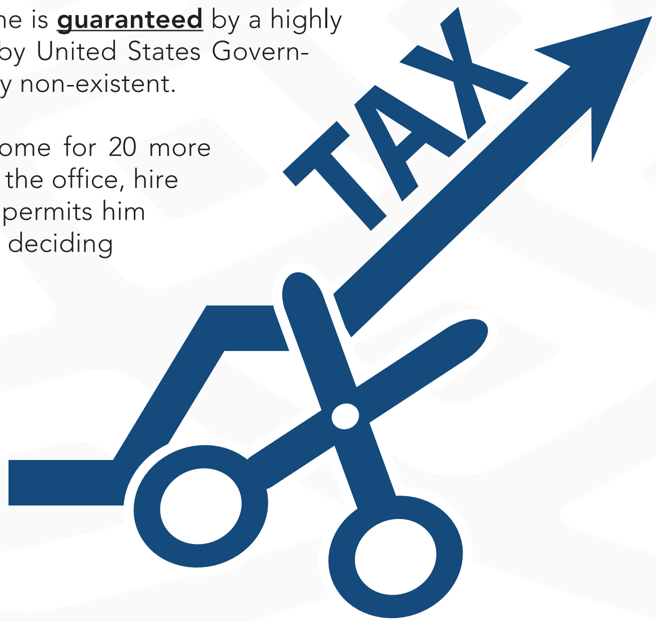
Abe Makes the Wise Choice

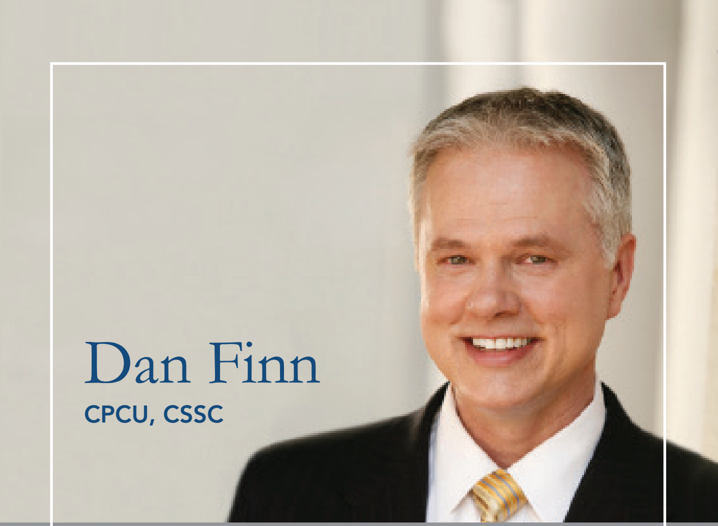
Assuming his future tax bracket will remain at the 37.3% combined bracket, **he decides he can save a LOT of money in taxes by structuring.** He elects an option that pays him $13,405.00 per month guaranteed for the next twenty years beginning in one year. This nets out to approximately $160,860.00 a year – more than what he is accustomed to earning.

While setting himself up with secure cash flow for twenty years is part of the appeal, when he looks at the tax savings and analyzes his situation from a financial perspective, he knows he made the right decision.

By structuring his fee, Abe calculates that he would have needed to earn 8.08%, on his after tax cash (the aforementioned $1,252,750.00) to equal the same net cash flow as the structure. Since 8.08% is even better than the historical stock market return, it is an easy decision for him to make. The return is exceptional and, because his future income is **guaranteed** by a highly rated life insurance company or backed by United States Government obligations, the risk of loss is virtually non-existent.

He, in effect, exceeds his customary income for 20 more years without ever having to check in with the office, hire any staff or consult with any clients. This permits him to be as selective as he chooses when deciding which cases to take on. Or not.





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We're Here to Help You Win

Even attorneys who plan to be in a perpetually high tax bracket are pleased to discover that Structured Attorney Fees compare extremely favorably with other fixed term investments allowing them to sleep better at night.

As a plaintiff attorney, you work hard to get good results for your clients. Proper tax planning can help you save some of your own hard earned money. **Practitioners are encouraged to call for a no obligation consultation**. We have several proprietary analytical tools that can help you decide if a Structured Attorney Fee makes sense for you.

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About the Author

Dan Finn is President of Finn Financial Group, LLC — A Newport Beach (CA) based specialty planning firm offering Structured Settlements and related products and services for clients nationwide. A former teacher, he also offers customized training seminars to clients seeking expertise in this area. FinnFinancialGroup.com

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