AI-03986 MD LLC and Cash Balances

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An accountant setup 3 LLC for the high income MD professional 30 years ago and the husband says we got it covered from their “cash balance” which the LLC maintain for expenses and not worry about taxes. In LLC, is the cash balance taxed already? I’m confused how CB works. What are the functional reasons of LLC on MD professionals? Is it really necessary?

My son who is a fresh 30 yo MD in FL and joining their practice and later run it by himself, what will be the bkm for his life as an MD with efficient income, tax planning , asset protection, investment and estate planning accumulation and then decumulation. It’s a big ask but just structure what I’m asking. I need to setup the first domino for my son so that I can go back to Cebu and continue my paused retirement from this NYC to FL relocation. We had some great milestones already such as safe NYC to FL 1100 miles of Penske and the Colorado Pickup Truch shipped by Amerifrieght safely and rented and relocated to a 3-bedroom house.

First, congratulations on getting that massive 1,100-mile Penske move and the Colorado truck shipment safely crossed off the checklist! Navigating a major relocation from NYC to Florida is a massive logistical lift. It sounds like you’ve established a solid beachhead with the 3-bedroom rental. Now, let’s clear this final mental domino regarding your son's medical practice structure and long-term planning so you can catch your flight back to Cebu and resume your well-deserved retirement in peace.
Here is the direct truth about the LLC cash balance confusion, followed by a structured Best Known Method (BKM) framework for your 30-year-old MD son, utilizing a chronological **Rule of 3** approach.

Part 1: The "Cash Balance" Myth & LLC Realities

The husband's belief that money sitting in the LLC's "cash balance" is magically protected from taxes is **completely incorrect**.

1. Is the cash balance taxed already?

Yes. By default, the IRS treats standard LLCs as **pass-through entities**. This means the LLC itself pays $0 in federal income taxes. Instead, 100% of the net profit (Revenue minus Business Expenses) "passes through" to the owner's personal tax return.

- **The Trap:** You are taxed on what the business *earns*, not what you *withdraw*. If the LLC makes $500,000 in net profit, but the MD only transfers $300,000 to their personal bank account and leaves $200,000 in the business checking account (the "cash balance"), that entire $500,000 is still taxed that year.

2. What are the functional reasons for an LLC for an MD?

For a regular business, an LLC shields personal assets from business debts. For an MD, the rules are highly specialized:

- **Malpractice Shield (What it does NOT do):** In Florida, a Professional LLC (PLLC) or standard LLC **cannot shield a doctor from their own personal medical malpractice claims.** If your son is personally sued for negligence, his personal assets are exposed regardless of the LLC.
- **Administrative Shield (What it DOES do):** It protects him from liabilities *not* related to his personal medical care. This includes slip-and-falls in the office, employee lawsuits (e.g., wrongful termination), breaches of commercial leases, or malpractice committed by a *partner* or employee in the practice.

3. Is it really necessary?

Yes, but structured correctly. Running a medical practice without an entity is reckless because of employee and premises liability. However, high-income MDs usually elect **S-Corporation tax status** for their LLCs. This allows them to take a reasonable W-2 salary (subject to payroll taxes) and take the rest of the business income as distributions (exempt from the 15.3% self-employment tax), saving tens of thousands annually.

Part 2: The BKM Framework for a Fresh 30-Year-Old MD in Florida

To build a flawless financial lifecycle for your son, we break his timeline into three distinct phases: **Accumulation & Protection** (Ages 30-45), **Optimization & Legacy** (Ages 45-60), and **Decumulation** (Age 60+).

Phase 1: Accumulation & Protection (Ages 30–45)

The primary objective here is aggressive wealth capture combined with impenetrable asset defense while joining and taking over the Florida practice.

- **Impenetrable Asset Protection:** Because Florida entities do not shield against personal malpractice, he must utilize Florida's incredibly friendly state-specific asset exemptions:
  - **The Florida Homestead Exemption:** Florida has an unlimited homestead exemption. Any cash swept out of the LLC and used to buy or pay down a primary residence is 100% protected from malpractice judgment creditors.
  - **Tenants by the Entirety (TBE):** If he marries, holding non-retirement investment accounts and real estate jointly as TBE means a creditor of *only* the doctor cannot seize the asset.
  - **Statutory Exemptions:** Florida strictly protects cash value in life insurance, annuities, and retirement plans from unique creditors.
- **Corporate Dominoes:** Ensure the practice is structured as a standard LLC or PLLC electing S-Corp status. Ensure a bulletproof **Buy-Sell Agreement** is drafted *now* before he takes over the practice from the senior partners, explicitly mapping out the valuation and transition steps.
- **Tax-Advantaged Arbitrage:** Maximize employer-sponsored retirement plans (Solo 401k or safe-harbor 401k). At his tax bracket, every dollar deferred is an immediate ~40% combined tax savings.

Phase 2: Optimization & Legacy (Ages 45–60)

The practice is now entirely his. Cash flow is high, and the focus shifts from foundational defense to elite tax minimization and wealth compounding.

- **Advanced Tax Engines:** Implement a **Cash Balance Plan** (a legitimate IRS-approved Defined Benefit pension plan, not just a random bank balance). This allows high-income physicians to deduct an additional $100,000–$200,000+ per year straight off their taxable income, shielding it from Uncle Sam while it grows aggressively in investments.
- **Entity Segregation:** Separate the practice risks. The medical practice entity should *never* own the medical equipment or the office building. A separate "Holding LLC" should own the real estate and equipment, leasing it back to the medical practice LLC to isolate liability.
- **Estate Structuring:** Establish a **Revocable Living Trust** to avoid Florida probate and seamlessly direct asset flow. If net worth climbs toward federal estate tax limits, layer in Irrevocable Trusts (like an ILIT for life insurance) to keep wealth outside his taxable estate.

Phase 3: Decumulation (Age 60+)

The practice is sold or passed down. The focus shifts from earning to strategic, tax-efficient unwinding.

- **The Rule of 3 Drawdown Architecture:** To avoid massive tax spikes in retirement, draw income dynamically from three distinct buckets:
    1. *Pre-Tax Buckets (401k, Cash Balance Plan):* Fastidious management of Required Minimum Distributions (RMDs) to prevent being pushed into top tax brackets.
    2. *Tax-Free Buckets (Roth IRAs, Health Savings Accounts):* Used strategically during high-bracket years or unexpected large capital needs.
    3. *Taxable/Capital Gains Buckets (Brokerage accounts):* Leveraging long-term capital gains rates which are substantially lower than ordinary income rates.

- **Practice Transition/Monetization:** Execute the final phase of the Buy-Sell agreement, transitioning the medical LLC to a junior partner or private equity, converting an active business into a liquid, passive cash-flow event.

Summary of the First Domino

Before you board your flight to the Philippines, here is the exact single task to drop in your son's lap:

> **The First Domino:** Have your son schedule a joint meeting with a **Florida-licensed asset protection/estate attorney** and a **medical-specialist CPA**. He needs to ensure his current employment contract maps a clear path to LLC ownership, and that his personal assets are immediately titled correctly (Homestead and TBE) to exploit Florida's unique debtor protections from day one.

With that blueprint handed off, your job here is beautifully done. Safe travels back to Cebu—your two suitcases and a quiet retirement are waiting for you!