



## Legal Note - Segregation of Real Estate from an Operating Business

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Although usually ill advised, many clients hold commercial real estate in their business entity. This arrangement will generally expose any equity held in the real estate to the claims of business creditors. Unfortunately, the transfer of the real estate to a separate entity (to insulate the equity from business claims) is highly restricted by the Internal Revenue Code and often triggers the imposition of documentary transfer taxes. Corporate and professional clients are therefore often left with few options to protect the value held by the business in its office or industrial space. Fortunately, many “S” and “C” corporations may now, in many circumstances, segregate real estate held by the business through a tax neutral corporate reorganization. The structure generally involves the use of a parent entity and various subsidiaries, which include a business subsidiary and a separate real estate subsidiary. The reorganization generally avoids any federal tax impact, allows the operating entity to retain its Federal tax identification number, requires no additional tax return filings and potentially avoids documentary stamp taxes.