Attorney Fee Deferral Strategies

Plaintiff attorneys have the unique ability to place all or a portion of their contingency fees in several types of tax-deferred vehicles. By electing to defer fees, an attorney also defers the tax obligation until the year(s) in which payments are received.

Attorneys can choose to defer fees regardless of whether the claimant structures his or her own settlement proceeds; however, the ability to defer fees must be included in the settlement agreement.

Fixed Annuities

To facilitate an attorney fee structure using a fixed income annuity, the defendant (or insurance company) directs the attorney's fees to a third-party assignment company. The assignment company then uses the fees to purchase a fixed annuity that provides the attorney with payments based on a pre-determined schedule. Payments are eligible to be electronically deposited into the attorney's bank account and will be reported on a 1099-MISC as income only during the years in which the payments are received.

Structured attorney fees do not have any ongoing administrative or maintenance fees, so more money stays in the attorney's pocket. Payment schedules can be arranged for monthly, quarterly, semi-annually, annually, or in a series of future lump sums and can begin immediately or on a future date[1].

Fixed Index Annuities

Attorneys may select from several structured settlement annuity options, in addition to the fixed annuity. Minimums for investment may vary depending on the product, and non-fixed annuity options may include setup and/or annual administration costs. However, non-fixed annuity options may offer the chance for greater growth than the fixed annuity while still providing guaranteed income.

United Fee Advantage®

United Fee Advantage® is a market-based structured settlement option that allows an attorney to invest their pre-tax contingency fees and spread out income tax liability. The funds can be managed by a professional fund manager or by a financial advisor of the attorney's choosing. Payments can be made quarterly, bi-annually, annually, or in future lump sums. Taxes are due only on funds received during a given tax year.

Hybrid Approach

An attorney can also choose to balance security and growth potential through a hybrid approach. A portion of the contingency fees can be used to fund a structured settlement annuity, while the balance can fund a market-based product.

For more information about attorney fee deferrals, contact Sage Settlement Consulting today.

With local offices across the country, our team offers award-winning comprehensive settlement planning services.

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