Optcapital®

The Tax Man Will Wait

Lawyers can now enjoy the same tax-deferred compensation as *Fortune* 500 executives.

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All over the country, law firms are discovering they can actually invest their contingency fees, without limit, in a pre-tax, tax-deferred manner, entirely in investments of their own choosing. By putting off their taxes, they can invest their full fees, creating a larger investment base and—just as important—a larger base against which they can then borrow.

They can do all this simply by setting up a Cascade Rights Trust (CaR®)—a nonqualified deferred compensation program (NQDC) from Optcapital.

Capital accumulation … **Liquidity and loans** … **Retention of key lawyers**

CASCADE RIGHTS TRUST (CaR®) FROM OPTCAPITAL

CaR®s give firms a new degree of financial flexibility they can then apply either to funding more cases, sweetening retention programs, or simply generating higher profits per partner. With combined marginal tax rates now approaching 50%, the idea of deferring fees—and thus deferring taxation—has never looked more appealing.

Optcapital, founded in 1998, manages more than $3 billion of pre-tax, tax-deferred capital.

Deferring taxes on fees is not just intuitively satisfying, it’s also financially smart. Annual taxation imposes a heavy drag on capital accumulation. By eliminating that drag, partners can accumulate significantly more capital than if they invest on an after-tax basis.

Chart 1 compares the 10-year growth of a $1 million fee invested on an after-tax basis, with the same fee invested pre-tax, tax-deferred in a CaR® program.

Under a CaR® Trust, 100% of the fee is working at all times, free of tax erosion. With more capital at work, not only are the investment profits greater, but the borrowing base is greater as well. Margin loan rates today are as low as 3%, and are expected to remain low for the foreseeable future, making this a highly efficient strategy for funding operations without depleting capital.

Chart 2 takes a $1 million fee and compares the profits, given a loan-to-investment ratio of 50%, an 8% return, and a borrowing cost of 3%.

By placing earned fees in a pre-tax, tax-deferred CaR® Trust, law firms and their partners are free to invest those fees through their own investment advisors. They enjoy greater capital and easy liquidity at low cost. So whatever that capital is to be used for, there is more of it to be used.

Chart 1
PROFIT ACCUMULATION COMPARISON

$1 Million Fee Invested for 10 Years *8% Return, 47% Fee Tax Rate and 38% Investment Tax Rate*

Chart 2
PROFIT ACCUMULATION COMPARISON using a 50% leverage-to-investment ratio

$1 Million Fee Invested
8% Return, 3% Interest Cost