



THE SHIELD

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The Private Contract Trust

The Irrevocable Private Contract Trust Organization has been a legal, private Agency of Commerce in the United States since the late 1880s. It is similar to a Corporation in operation but differs in its formation and ownership structure. It gets its strength and validity from our United States Constitution, which itself is a contract and is the mother of all Law in the United States. The Common Law Contract Trust is recognized as a valid legal entity by the IRS and offers a business medium that can reduce taxes, limit liability, protect assets and achieve estate preservation.

Trusts and Contracts

It is necessary to understand the word "Trust" as it relates to the Contract Trust Organization. The dictionary defines "trust" as having faith in another individual based upon honesty, confidence, trustworthiness, and reliability. "Trust", as it relates to a Contract Trust Organization applies to the structure or how the contract agreement is formed. The Contract Trust requires a Creator, an Investor(s), and a Trustee who is appointed to manage the Trust Organization. Trust Certificates are exchanged with the Investors(s) and they (the Investor(s)) become the Trust's Certificate Holders (of Beneficial Interest). Thus the contract takes on the look of a Trust by the way it is created, i.e., the names and functions of the parties involved and its subsequent operation. The Contract Trust can be utilized to conduct an active business or just simply be employed to hold, preserve and safeguard assets.

In our daily efforts to exist or to conduct business and accomplish our everyday needs we must trust a lot of people. We have trust in those who provide services for us; auto mechanics, doctors, dentists, insurance agents,

tax preparers, contractors and all others we engage. We contract with the telephone company, the utility companies, the grocery store, the bus or taxi driver, the gas station and a host of others on a daily basis. Our typical day involves a lot of contracts for goods and services. It is easier to select and put trust in those that we know. When we don't know them or trust them, we often use a written contract to protect our interests. Our lives are dependent upon trusting a lot of individuals and companies, including the government, for certain protections and guarantees.

The basis of law in these United States evolved from English Common Law brought to this country by the early settlers. Contracting came to this country with the settlers. Most of us are unaware that the Constitution of the United States is a Common Law Contract. It is a contract between "We the People"... and our Federal Government. Article One, Section Ten of the Constitution guarantees our right to enter into a contract.

How the Contract Trust Organization Came to Be

The Common Law Trust all began a long time ago when the first settlers in the 1600's brought English Common Law and the Common Law Contract to this country. It wasn't until the late 1800's when the Contract Trust Organization was challenged and formally approved by the courts in the State of Massachusetts. The Contract Trust Organization was first known as the Massachusetts Trust. Even though Contract Trust Organizations were recognized as legal agencies of commerce, for years the tax collectors and the courts challenged those who operated them. The various state and federal taxing authorities taxed Contract Trust Organizations by claiming them to be

“associated” organizations and therefore taxable as Corporations. The business people of the day cried foul and many challenges in the courts followed. In 1935 the differences between Corporations and Contract Trusts became clear when the Supreme Court defined the four characteristics of a corporation: 1) Continuity of life. 2) Centralized management. 3) Limited liability for shareholders. 4) Free transferability of shares or ownership. (Morrissey v. The Commissioner) If a business had these characteristics it was labeled an **“association”** type of organization and therefore it could be taxed twice, once as a Corporation, and the second time as a Shareholder.

It didn't take long for the business people of that time to change the look of the Trust: that is: don't walk, talk, look like or smell like a Corporation. To do this they removed the continuity of life provision and limited that provision to twenty years with a renewable clause. They also restricted transferability of certificates and limited the rights of the certificate holders by taking away their voting (association) rights. They left alone the centralized management and limited liability of the Certificate Holders. Thus the Common Law Contract Trust included the most desirable aspects of the Corporation and the **contractual** and **privacy** attributes of a Trust. It took some time, but the “Contract” Trust Organization, protected by the United States Constitution, was recognized as a **“non-associated”** organization, and the double taxation issue was finally settled.

As part of the provisions of the Contract Trust Organization, profits may be distributed by the Trustee(s) to the Certificate Holders – at the Trustee's sole discretion. The IRS recognizes the Contract Trust Organization as a Complex Business Trust, in which all or part of the income may be distributed. Any remaining income left in the organization is taxed under the provisions of IRS (tax) Form 1041 (the fiduciary tax return) or Form 1065 (the

partnership form). Form 1065 is the better of the two most of the time. Tax planning is enhanced because there are two options by which to deduct expenses. The remaining income can be distributed via IRS Form K-1 to the Certificate Holder(s) who deduct personal allowances and pay taxes via IRS Form 1040.

Over time these “non associated” Contract Trust Organizations have taken on a variety of names; Massachusetts Trust, Business Trusts, Pure Trusts, Pure Equity Trusts, Common Law Trusts, Contractual Trusts, Investment Trusts, True Trusts, Family Business Trusts, Constitutional Trusts, to name a few. The Business Trust Organization (BTO) and the Unincorporated Business Organization (UBO) are the most commonly referenced names found in the IRS code.

How is a Contract Trust Organization Created?

A Contract Trust Organization is an agency of commerce that is created by contract. It is a Contract in “trust format”. The contract spells out all the rights, duties and obligations of all the parties to the contract. The Contract Trust needs to have a Creator, Investor, Trustee and Certificate Holder(s). The Investor (you) exchanges his assets with the Trust Creator for Trust Certificates. The Investor, through the exchange, then becomes a Trust Certificate Holder. The Investor's assets are **irrevocably** placed in trust within the Trust Organization and thus become the “corpus” or assets of the Trust. As his final act, the Creator, without prior agreement with anyone, chooses a Trustee, after which he simply leaves the contract and Trust organization behind.

The Creator may appoint anyone of his choosing, including the original Investor, as the first Trustee. The first Trustee then appoints a second Trustee. Together, they may appoint additional Trustees and Successor Trustees. All rights, title (both legal and equitable) and interest in the assets of the

Contract Trust Organization are held in fee simple absolute by the Trust Organization. The Trustee can do anything he/she desires with the assets, including selling or pledging them as collateral for a loan or acquiring additional assets by investing or outright purchase.

Other Investors may also transfer, by exchange, property or cash to the Trust Organization and receive Trust Certificates for the property. Trust Certificate Holders have limited benefits; they are entitled to a pro rata portion of any distribution of trust organization profits or sale of assets but only when or if the Board of Trustees decides to make a distribution of those funds. The Trust Certificate Holders also receive funds resulting from dissolution. Trust Certificate Holders have no vote or voice in the operation of the Contract Trust Organization, because this is a “non-associated” organization.

The Concept of “No Ownership”

We all grew up believing that the more we own the better off we are. Because of years of rewarding ourselves or being rewarded for owning things, ownership has become a concept that is deeply entrenched within our culture. We like to own our homes, cars, collections, antiques, etc. We like to think we own our homes, but even when we pay the mortgage off we still have to pay property taxes. If you fail to pay your property taxes the county can take your home or property and sell it by auction to pay the taxes. So the county is the real owner of the property. Ownership is tentative, conditional and in many cases temporary. None of us can take our property with us when we die, but the government will tax it when we “will it” or give it to someone else.

The Management Concept

The Contract Trust Organization operates on the concept of “**management**” rather than ownership. The Trust Organization manages property through Trustees by a Contract and

Declaration of Trust. The person(s) who places his or her business and assets within the Trust Organization gains the benefits of the business’s production without the liability (burden) relating to the ownership of the business and its assets. By releasing ownership you effectively release the liability. This management concept may not be easy to understand at first, and needs a little getting used to, because we keep bumping up against our “gotta own it” culture.

Who Owns Corporations and Contract Trust Organizations?

Ownership of a corporation is accomplished by purchasing stock in the corporation. The Stockholders (owners) elect a Board of Directors who in turn elect Officers and determine the corporation's direction and the amount of dividend (when profitable) to be paid to the owner Shareholders. A corporation is considered by the government taxing authorities as an “**association**” type of organization. The shareholders or “Certificate Holders” are “**associated**” with the operation and management of the corporation by electing its Directors. The corporation gets its franchise authority or privilege to do business from the state by provision of state (statutory) law. The Corporation must pay annual franchise fees to the state for the “privilege” of doing business in that state. In addition to the annual franchise fee, most states require that the officers, directors and shareholders be reported to the state annually. Thus there is no privacy.

By contrast, the Contract Trust Organization is formed by a Contract between two or more private parties, and is totally private. The Contract Trust Organization is a valid legal entity or “artificial person” in and unto itself. **It has no ownership.** The Certificate Holders do not own any of the underlying assets of the Trust Organization. The Certificate Holders are only entitled to a distribution of profits at the Trustee's sole discretion; they are not “**associated**” with the managing Trustees of

the Trust. Providing the Trust Organization is legally operated within the law, it cannot be intruded upon by others outside of the contract, including the government. When we enter into a valid, mutually acceptable contract with other competent parties, the contract cannot be intruded by others who are not part of the contract. The Trustee is bound by the contract to maintain its privacy; therefore he or she cannot and should not reveal the names of the Certificate Holders or Investors of the Trust Organization. The Trustees determine the business decisions, including distribution (if any) of earnings of the Trust Organization. **The Certificate Holders cannot, and do not, elect the Trustees and cannot influence in any way the operation of the Contract Trust Organization**, thus, the Contract Trust Organization is **not an “association”** form of business organization as is a Corporation.

As an Estate Planning Tool There Is No Better Protection

Because your assets are irrevocably transferred out of your name and into the Trust Organization, you obviously no longer own them. Your objective here is to only manage assets, not to own them. Third party litigants are impeded from taking assets from you because you no longer own any assets. No one can take from you assets that you do not own. Thus, it is possible to “judgment proof” what used to be your assets and all subsequent acquisitions of real estate and personal property, provided, of course, you operate the Contract Trust Organization in legally permitted ways.

Because you no longer own things (assets) there is little or nothing to probate in your estate at the time of your death. Therefore, inheritance/estate taxes are eliminated from your estate. Your successors, the second trustee or successor trustee(s) (your spouse, partner or children) take over as Trustee(s) of the Contract Trust Organization and continue

to carry on the management of the Trust's property and business.

The Benefits of a Contract Trust

As mentioned earlier, you have a tax advantage by having two methods to file income taxes. As a business entity, any expense to which a corporation is entitled is also available to the Contract Trust Organization.

Here are a few more reasons for transferring your personal assets and business affairs into a Contract Trust Organization.

1. Privacy from third party intrusion, including the government.
2. Enhanced flexibility, offering creativity for business planning.
3. Increased profits from reduced tax burden.
4. Reduced personal exposure because you don't own it; you merely manage it.
5. Avoidance of probate, because you hold no assets in your personal estate.
6. Asset preservation; there is no probate, so there are no inheritance or estate taxes.
7. Reduced exposure to potential lawsuits because you have no personal assets.
8. Increased control over your business and asset management programs.
9. Avoidance of most states, federal and registration fees.
10. Peace of mind by enhanced control over your acquisitions and accomplishments. The Contract Trust offers a platform of increased freedom and an environment to challenge your creativity.

Where Do I Get a Contract Trust?

Indicator Information Institute is dedicated to bringing you the most complete, personalized Private Contract Trust organization available today. Six informational booklets are available for only \$130.00 (plus \$5.00 S&H). The cost is deducted from the Contract Trust purchase. Call today for more information.