

Michigan LLCs & Asset Separation

How Important Is It?

Extremely.

Like, *“this is the whole point of an LLC”* important.

The Big Idea (In Plain English)

An LLC works because the law agrees to this deal:

“If you treat the LLC like a real, separate business, we’ll protect your personal assets.”

If you don’t keep things separate, the law responds with:

“Cool story — then we’ll pretend it never existed.”

That’s called **piercing the corporate veil**, and Michigan courts absolutely do it.

What “Separation” Actually Means

Each LLC should have:

- Its **own bank account**
- Its **own credit card**
- Its **own assets**
- Its **own liabilities**
- Its **own contracts**
- Its **own books**

Not:

- Your personal checking account
 - Another LLC’s credit card
 - “I’ll reimburse myself later” accounting
 - “It’s all basically the same business” logic
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What Happens If You Mix Things?

1. You Lose Liability Protection

If money and assets are mixed:

- Creditors can argue the LLC is a **sham**
- Courts can hold **you personally liable**
- Other LLCs you own may get dragged in too

In Michigan, judges look for:

- Commingled funds
- Personal expenses paid by the LLC
- No clear records
- No respect for formal separation

That's veil-piercing fuel.

2. One LLC's Problems Infect the Others

If you have **multiple LLCs** and you intermingle:

- A lawsuit against LLC #1 can expose assets of LLC #2
- Creditors argue they're really "one operation"
- The whole house of cards starts wobbling

This is especially dangerous when:

- One LLC owns real estate
 - Another has employees or risk exposure
 - Another is "just holding money"
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3. The IRS Gets Suspicious (Fast)

Even if the IRS doesn't care *which* LLC owns what — they care **a lot** about:

- Personal expenses deducted as business expenses
- Sloppy books
- Unclear ownership of assets

That leads to:

- Disallowed deductions
 - Penalties
 - Audits you don't want
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4. Banks, Buyers, and Lawyers Will Hate You

If you ever:

- Sell an LLC

- Bring in a partner
- Apply for financing
- Try to dissolve or transfer assets

Intermixed assets =

- Extra legal work
 - Higher fees
 - Delays
 - Sometimes “we can’t fix this cleanly”
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Is It Illegal?

Usually not criminal — **but very harmful legally.**

Think of it like this:

- Speeding = illegal
- Ignoring separation = **voluntarily giving up protection**

Courts don’t punish you —
They just **stop protecting you.**

Which is worse.

Michigan Reality Check (Very Honest)

If you own:

- Multiple LLCs
- Rental properties
- Operating businesses
- Asset-holding LLCs

You should assume:

Every LLC will be judged on how seriously you treated it.

LLCs that are sloppy get treated like personal wallets.
LLCs that are clean get respected.

Best Practice (Simple & Defensible)

For **each LLC**:

- Separate bank account
- Separate bookkeeping file

- Written Operating Agreement (even single-member)
- Written transfers between you and the LLC (loan, contribution, distribution)
- No personal expenses — ever

If money moves:

Document it or don't do it.

Bottom Line (With a Smile)

An LLC is not a pocket.

It's not a piggy bank.

It's not a "close enough" situation.

It's either separate — or it's pretend.

And Michigan courts are very good at spotting the difference.
