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Transportation & Logistics Group – Entity Structure Briefing
Separation of Brokerage Business from Carrier Entity

This briefing summarizes best practices for transportation companies on structuring carrier, broker and other related activities such as equipment leasing and warehousing.

Basic Recommendations:

- Separate activities belong in separate business entities. Each business activity (for-hire freight transportation, brokerage, leasing, *etc*.) is conducted by a separate business entity.

- Administrative and management costs may nominally increase by creating separate business entities, advantages of this structure tower over perceived burdens.

- The most immediate advantage is separation of liabilities related to the carrier's activities, *e.g.,* catastrophic over-the-road accident.

- Brokerage is generally considered a high reward / low risk activity. However, if not separated from the carrier and other business assets, a catastrophic loss in excess of insurance coverage occurring in any of the entities could result in loss or attachment of assets of the other entities toward the satisfaction of any judgment.

Create a Holding Company:

- Often, creation of a holding company structure is the best solution for realizing additional benefits of the separation of entities. Having the holding company own the carrier entity, brokerage entity, leasing entity and warehousing entity separate creates easily identified separate profit centers.

- Separation may be helpful in retaining key employees through phantom ownership plans or other bonus benchmarks tied to performance of the company in which the key employee makes his or her contribution.

- From a tax perspective, gains and losses of subsidiaries flow through to the holding company and may offset each other.

- The holding company provides another layer of protection to ownership.

- Also, by operating under separate business entities customers and other business partners may be able to avoid confusion as to which entity best meets their needs.