GUARDIAN
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MSO STRATEGY:

OVERVIEW FOR FINANCIAL PROFESSIONALS OF BUSINESS OWNERS

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THE PROBLEMS BUSINESS OWNERS FACE

Business Owners' Personal And Business Assets May Be At Risk

- Business Owners Do Not Have A Central Business Entity To Protect Assets And Provide Serv Share Resources Across Their Operating Company(S)

Business Owners Have An Overlooked Tax Gap Risk And Are Likely Overpaying State And Federal Income Taxes

- Businesses Have Not Updated Their Financial Structures To Take Advantage Of Recent Tax Law Changes

Business Owners Are Unprepared For The Significant Tax Increases In 2026

- The Tax And Jobs Act Provisions Sunset After 2025, At Which Time The QIBD (Qualified Income Business Deduction) Will Phase Out, Marginal Tax Rates Will Increase, And Estate Tax Rates Will Increase

Business Owners Have Continuity Gaps That May Disrupt The Normal Operations Of Their Business(Es)

- Continuity Risks Such As Death, Loss Of Key Employees, Failure To Plan For Succession And Business Exit Create Threats Which May Result In Significant Monetary Losses

Business Owners Have Wealth Gaps That May Threaten Their Ability To Successfully Retire And Exit Their Business

- At The Time Of Exit, Business Owners Must Have Sufficient Income To Address Their Lifestyle, Savings And Ongoing Liquidity Concerns
- 70% Of Businesses Do Not Sell, And A Majority Of Owners Have Not Accumulated Enough Wealth Outside Of Their Business To Meet Their Retirement Expectations
- Business Failure May Bankrupt An Owner Unless They Have Sufficient Assets Outside Of Their Business

THE SOLUTIONS AN MSO OFFERS

Incorporate A Management Services Organization (MSO) Strategy Into Your Business Enterprise And Use The Cash Savings To Hedge Against The Additional Risks.

One Central Entity

- With An MSO, Your Business Enterprise Has An Additional Incorporated Entity To Protect Assets, Lease Shared Resources And Service The Operating Company(S) With Minimal Disruptions And No Change To Existing Equity Ownership.

Reduce Your Tax Gap

- Management Fees Paid To The MSO For Servicing Your Operating Companies May Reduce Your Personal Income Tax Liability.

Protect Against 2026 Tax Increases

- Insulate Your Business Enterprise From The 2026 Sunset Provisions With Proactive Tax Planning By Leveraging The Difference In Taxation Structure Between The MSO And Your Operating Company(S).

Address Your Continuity Gaps

- The Savings Created Can Prepare A Foundation For A Business Exit And Or Transition And Be Used To Hedge Against Your Continuity Risks.

Address Your Wealth Gap

- Utilize The Cash Savings To Address Your Wealth Gap By Purchasing Cash-Value Life Insurance To Provide An Additional Income Source That Is Not Dependent On Your Business’s Value.

MSO OVERVIEW

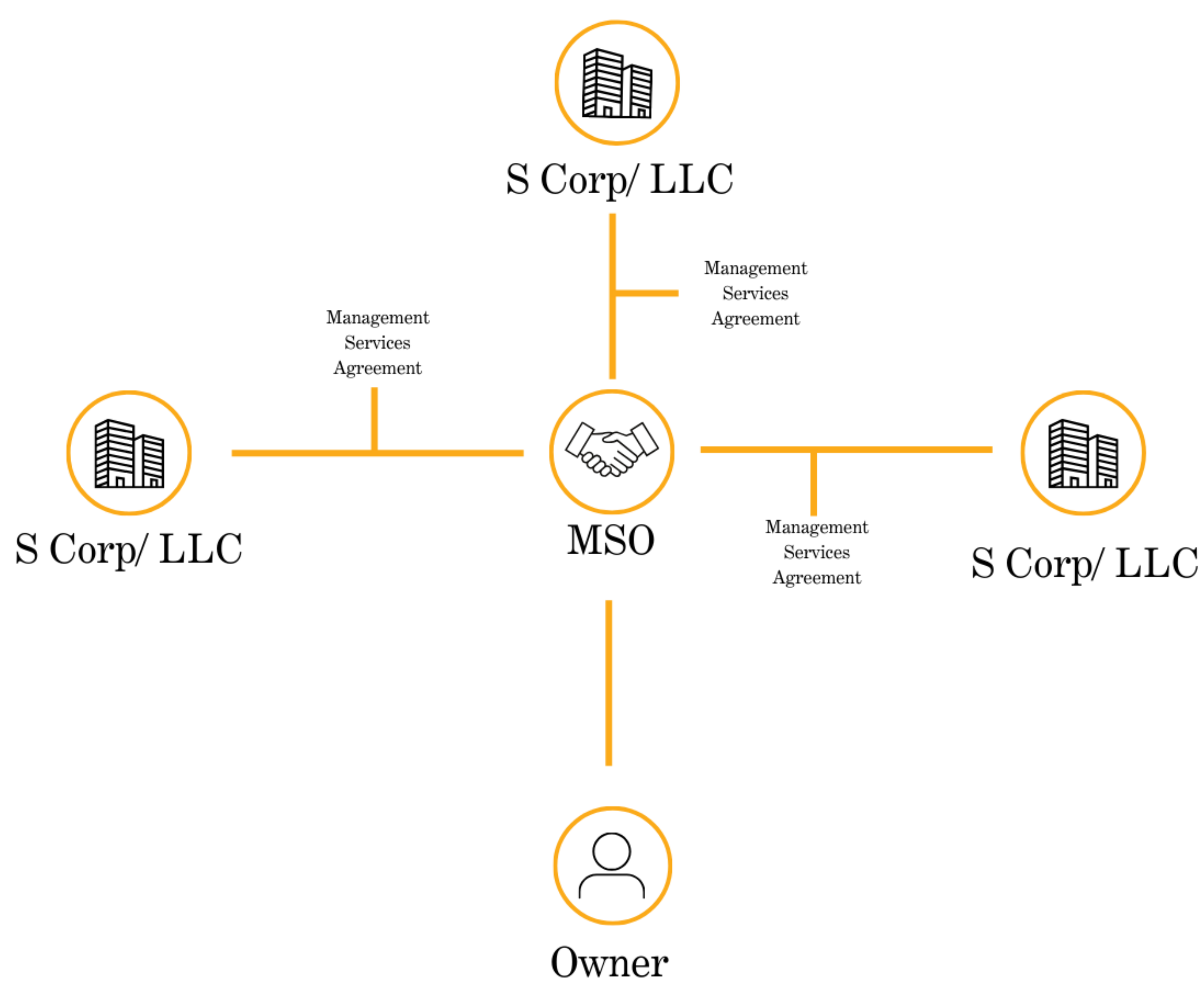
A Management Services Organization (MSO) is an entity that provides business services to an Operating Company(s) (OC).

Business purposes for forming an MSO include: providing self-financing for business operations or investment in assets in which financing would typically be done by a lending institution; asset protection, including holding specific assets of the business in order to minimize potential liability; providing and/or holding life insurance policies for owners or employees; providing business and administrative services for a company or group of companies with common ownership; potential future mergers and acquisitions; business continuity; future succession planning. The business purpose(s) of the specific MSO will be clearly defined in the organizational documents and meeting minutes.

Asset Protection/Commingling and Resource Sharing

Business owners often establish multiple business operating entities to support their operations and revenue goals. While the intention of establishing different business entities is separation for business operations and opportunities, a risk may be created of commingling assets. By using the same personnel, assets, and resources to manage and support operations of multiple businesses, legal liability may be introduced. The risk of commingled assets exposes a business owner's personal and business assets to external threats, such as lawsuits and creditors, by creating an opening to "pierce the corporate veil." Many business owners and entrepreneurs are exposed to this hidden risk and unaware of the potential danger they are vulnerable to.

An MSO creates a central location for business owners to house operating capital and commonly shared assets between the different operating companies. A formal written agreement, a "management service agreement" (MSA) is used between each operating company and the MSO, which mitigates risks of commingling assets.



Management Fees

In consideration for the services that an MSO provides to the business owner's operating companies, your businesses will pay a Management Fee, moving income into the MSO. The management fee is simply the fair market value of services calculated by a tax attorney and documented in a reasonable compensation valuation. Once the Management Fee Calculation has been completed and the agreements are place, your MSO can begin providing services to your operating companies and income can be directed to the MSO for those services.

MSO OVERVIEW

Cash Flow Movement, Tax Efficiency, Protect Retained Earnings

An MSO should have a business use purpose that ties into the total business enterprise. An MSO can provide tax efficiency, however tax efficiency alone is not a reason to open an MSO. When an MSO is used to support the totality of the business enterprise, the following concepts are important to consider in the appropriateness of this strategy to your business(es).

As your pass-through business income is stacking your marginal tax rate is increasing. Business owners are classically trained to distribute retained earnings to remove the risk from business failure or lawsuit. However, regardless of whether cash is moved from the pass-through entities to the owners personal account or left in the business, the income is still taxed. As a result, the business owner has paid taxes on profits either left in the business or distributed and now in his personal account. If the cash is in the owner’s personal account, it must be consumed or redeployed tax efficiently.

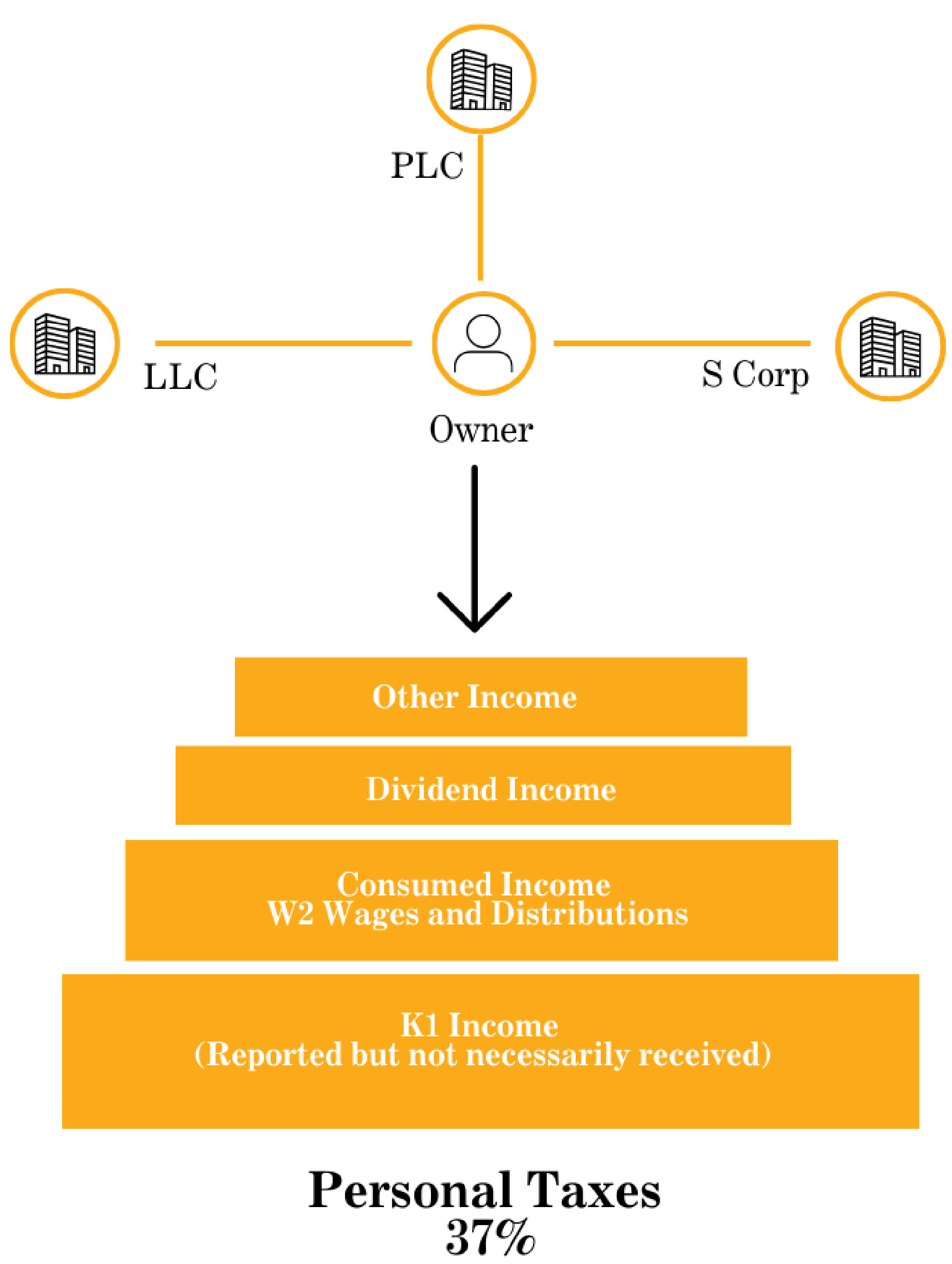
When structured properly, MSOs operating as C-corporations can offer numerous tax advantages and tax planning strategies not available in the traditional flow-through tax structure used by most businesses. With a flat tax rate of 21%, an MSO organized as a C-corporation offers considerable savings compared to the individual tax rates of 32% - 37%, plus a potential additional 3.8% net investment income tax.

Using annual planning, the MSO can help protect current year retained earnings that would have remained in the operating company. This is accomplished through management fee money movement into the MSO as accumulated earnings, providing a common location to house resources for business purposes.

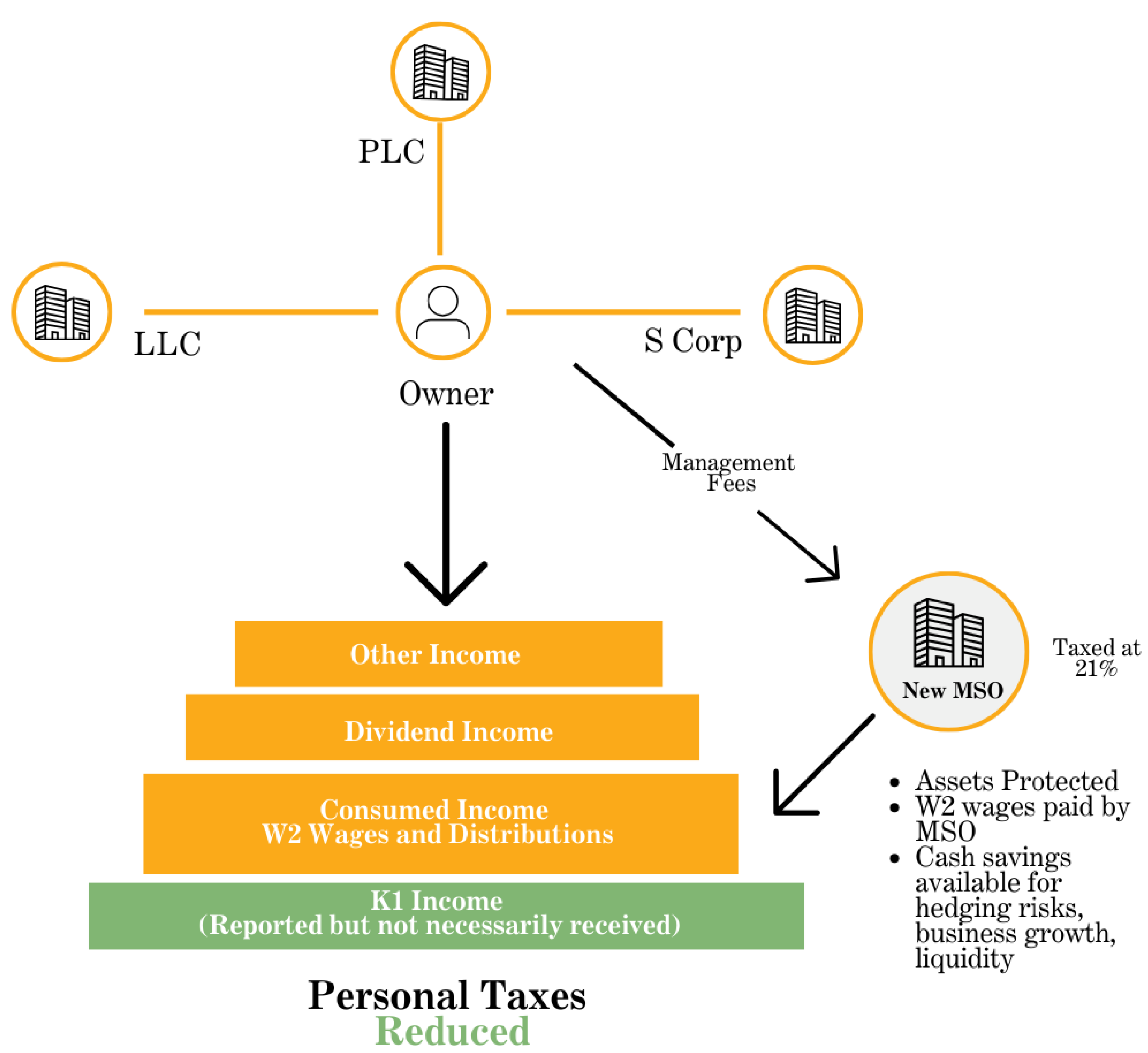
An owner should continue to pay themselves annual wages in whatever amount they require to maintain their lifestyle. Services must be performed in the MSO. The MSO must invoice the operating companies and the operating companies must pay the MSO for the services provided.

Once the funds are in the MSO, the funds may be tax-efficiently used for business use purposes. Any income left at the end of 9/30 fiscal year end will be taxed at a flat 21% and will be retained as accumulated earnings. Accumulated earnings should have documented business purposes, or a dividend will need to be considered in order to not violate the accumulated earnings tax.

Pass-through Structure



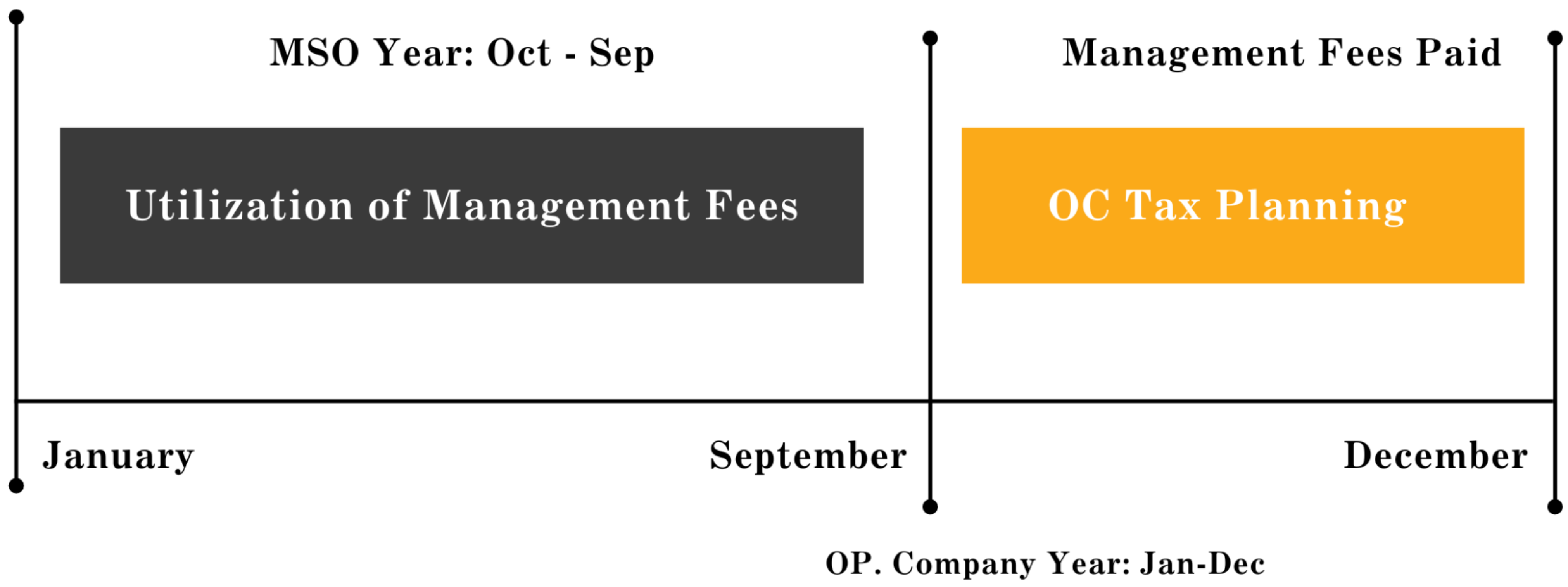
Optimal Structure



MSO OVERVIEW

Different Fiscal Years

Your MSOs may have a fiscal year end (FYE) that is different than the calendar year end of your operating businesses. Typically, your MSOs FYE is 9/30. The staggered fiscal year end is a powerful tool because it allows for the deferral of income recognition, and additional time to use the management fees on deductible expenses to reduce taxes. Management fees may be prepaid 12 months in advance and deducted in the current tax year paid.



Qualified Business Income Deduction

Pass-through entities currently enjoy a QBID deduction of 20% of their qualified income on taxes. An owner of an MSO organized as a C corporation can continue to utilize the QBID deduction in their operating companies, in combination with management fees to arrive at the lowest optimal effective tax rate. Note: This deduction phases out in 2026.

Efficient Debt Service

Interest on debt payments is typically tax deductible in companies. However, principal payments on debt are nondeductible expenditures regardless of whether the payments are made individually or by a flow-through entity or C corporation. By structuring current debt or acquiring new debt using an MSO, you may pay down the debt with 47.5% less pre-tax income (arrived at by taking the delta of pre-tax earnings required to pay off the debt). For example, if a business owes $1.2 million on a building or equipment and the principal is paid through an MSO structured as a C corporation, it will reduce the amount of pre-tax income/cash required to pay off the debt by $470,000. (Taking the $330,000 in taxes owed in the C-corp divided by $800,000 of taxes owed in the pass-through illustrates the tax efficiency rate of 47.5%.

MSO OVERVIEW

Fringe Benefits

Under the current tax code, fringe benefits are considered non-cash compensation or benefits for shareholders and employees that are not taxable. Many fringe benefits for employees and shareholders of C corporations are also fully tax deductible. However, in most cases partnerships, LLCs, and even S corporations may not deduct or write off fringe benefits. So, these deductions are a sole benefit of C corporation status.

Tax Efficiency for Insurance Premiums

Properly structured Long-Term Care, Disability and Life Insurance premiums are not considered dividends and thus they are not subject to double taxation in a C corp. Premiums paid out of a C corporation experience a 47.5% discount. This is due to the after-tax difference between paying at a 40% tax rate vs a 21% tax rate. Funds used to purchase cash accumulation life insurance may grow tax-deferred and can be accessed tax-free in future years through loans and or distributions.

Split Dollar Loan Strategies

Using split dollar loans may provide the ability to move large premiums out of the C corporation while protecting the growth of these premiums from future taxes. Cash saved from using the MSO strategy may be directed towards a cash value life insurance policy designed for wealth accumulation. The value of the cash grows inside the insurance policy and can be accessed for tax-free distributions in future years. In addition, a death benefit is attained with the purchase of insurance that may be used for estate planning, liquidity, and business continuity. Proper legal accounting and reporting is necessary to access this benefit.

Be Your Own Bank

Earnings and profits from your MSO can be used to provide properly structured business-use loans to existing or new operating companies, or for business growth opportunities. For example, a new LLC can be established and owned by your C-corp. Your C corporation can then transfer funds to your newly established LLC through a loan and provide future loans and lines of credit for capital, debt refinancing, asset purchasing and collateral.

MSO: POTENTIAL DRAWBACKS

Some potential drawbacks of utilizing an MSO strategy include double taxation of funds distributed as a dividend, addressing accumulated earnings, ensuring you understand your potential exit strategy, and the requirement to maintain compliance and oversight of the strategy.

Double Taxation

Business owners should continue to pay themselves a salary to cover their living expenses and allow the rest of their after-tax dollars to accumulate tax efficiently in their MSO. A dividend tax of 20% may be required to distribute earnings for consumption out of an MSO structured as a C corporation. You should take a W2 wage from your MSO for income that you need for consumption for living expenses, debt service, and liquidity.

Accumulated Earnings

Accumulated earnings are profits that remain in your C-corporation after taxes have been paid. C-corporations may retain these earnings for business purposes or distribute them to shareholders as a dividend taxed to the individual shareholder. Accumulated earnings tax is imposed on any corporation formed or availed of for the purpose of avoiding shareholder-level income tax by permitting earnings to accumulate instead of being distributed to shareholders (see IRS Code Sec. 532(a)). A corporation may reduce the risk of this tax by documenting the business needs of a corporation for working capital and for all other needs in contemporaneous records such as the corporation's minutes, in accounting reserves, in financial statements, business plans, or strategic planning documentation. These records should reflect that the corporation has "specific, definite, and feasible plans for the use of the accumulated earnings." Business use purposes may include, but are not limited to, reinvesting those earnings in the growth of the business and as capital for growing the business through acquisitions, shareholder succession planning, and or reserves for business continuity.

Exiting your MSO

As a standalone entity, your MSO can be an entity in which wealth can be transferred from one generation to another. This can be accomplished by tying your MSO into your estate plans, which will require your estate attorney and advisement advisor's coordination. If you decide to wind down your MSO, there are multiple avenues to accomplish this in a tax efficient manner such as using the accumulated earnings for qualified business expenses; converting to an S corporation and waiting 5 years to sell appreciated assets which may allow shareholders to re-characterize the gain from corporate rates facing double taxation to capital rates at the individual level; securing a strategic buyer for both the operating companies and the MSO; distributing all remaining earnings as a dividend.

Ongoing Maintenance and Compliance

As with running any business, maintaining compliance is critical. There is significant risk around the MSO's management fee if not properly utilized. The management fee calculation needs to be accurate, up to date and properly recorded, accurately reflecting the services provided. The best practice is to calculate this fee annually to capture changes in areas such business structure, revenue cycles, proficiency, and personal guarantees held.

The advanced planning and compliance support is part of our ongoing engagement, covered by a consultation fee of $10,000 per year (after year 1 of your MSO set up). As part of this engagement, we meet with our MSO clients twice a year for advanced tax planning and compliance purposes. Meetings occur in Q3 for the fiscal year end of the MSO, and again in Q4 to update the strategy as needed. The ongoing compliance program ensures that your goals and additional risk mitigation strategies are on track and that you maintain an accurate and up to date management fee annually.

MSO STRATEGY STEPS

1. **Establish a Management Services Organization to support your operating companies.**
An MSO is an entity that provides business services to an Operating Company (OC). These business services include, but are not limited to, services provided by the business owner, human resources, staffing, information technology, accounting, marketing, sales, and many other administrative services.

An MSO creates a central location for business owners to house operating capital and commonly shared assets between the different operating companies. A formal written agreement, a “management services agreement” (MSA) is used between each operating company and the MSO, which mitigates risks of commingling assets.

With an MSA in place for each operating company, the business owner can use their assets, capital, and commonly shared resources of each business with clear separation, preserving the integrity of each companies’ asset protection.

2. **Structure your MSO as a C-corp for optimal tax efficiency.**
When structured properly, MSOs operating as C corporations can offer numerous tax advantages and tax planning strategies not available within the traditional flow-through tax structures used by most business owners. With a flat tax rate of 21%, an MSO taxed as a C corporation offers considerable savings compared to the individual tax rates of 32% to 37%, plus a potential additional 3.8% net investment income tax. Cash flow planning to address accumulated earnings for business purposes and or qualified dividends should be conducted annually both for compliance and tax efficiency.

3. **Establish a 9/30 Fiscal Year End with your MSO and begin invoicing your operating company for services provided.**
MSOs may have a fiscal year end that is different than the calendar year end of your operating business(es) which is typically 12/31. Structuring your MSOs fiscal year end as 9/30 provides you with business advantages for cash flow planning, the deferral of income recognition, and additional time to use the income from management fees on deductible expenses for tax efficiency. Management fees may be prepaid 12 months in advance and deducted in the current tax year paid.

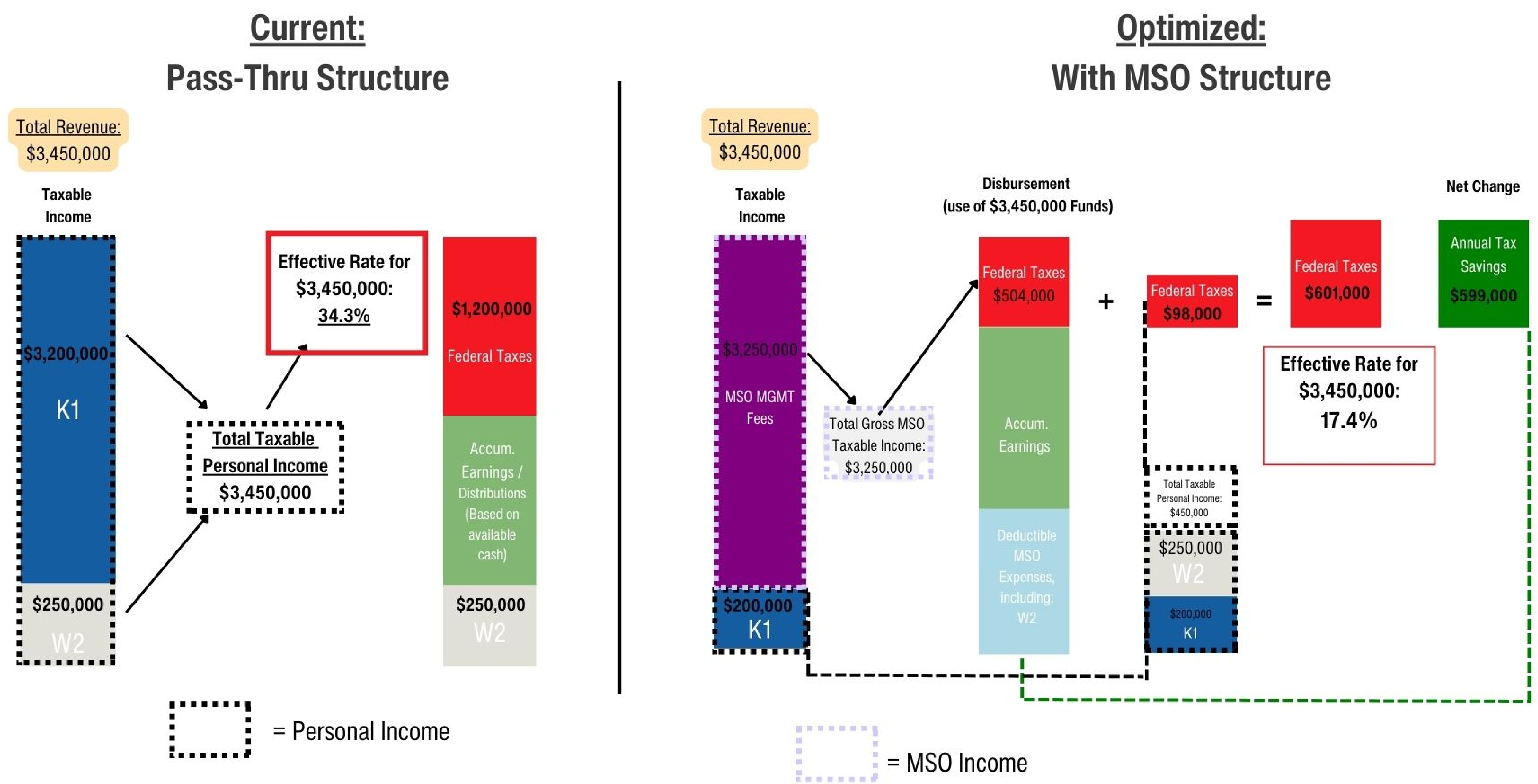
4. **Use a portion of your MSO funds to establish a tax-efficient cash accumulation strategy for hedging against risks, increasing liquidity, funding retirement and or future business exit funding needs.**
Using an IRS Section 7872 approved loan, your management company can provide funds as a premium payment for a properly designed life insurance policy. The premium paid under a 7872 loan arrangement is taxed at the 21% corporate level and not considered a dividend. The premiums can accumulate in a life insurance policy and grow tax-deferred to be accessed in the future through tax-free loans or distributions. An early cash value rider can be applied to the insurance policy loan to provide enhanced liquidity. The death benefit protection helps protect your business from continuity risks, while the cash value of the life insurance can be applied to many businesses uses which include succession planning, M&A needs, financing, and business exit or transition funding. The 7872 loan may be paid back in the future by taking a tax-free loan from the cash value of the insurance policy.

5. **After your MSO is established have your professional advisors determine the action items required for addressing key employee retention, and or Succession planning.**
Your advisors will work with Guardian to determine the most tax-efficient way to disburse funds from your MSO to address these needs.

6. **Along with your financial professionals, conduct annual MSO planning in coordination with Guardian’s compliance program.** The program will proactively assess the most advantageous methods for allocating MSO funds towards qualified expenses and hedging against liquidity, retirement, and or future exit funding needs.

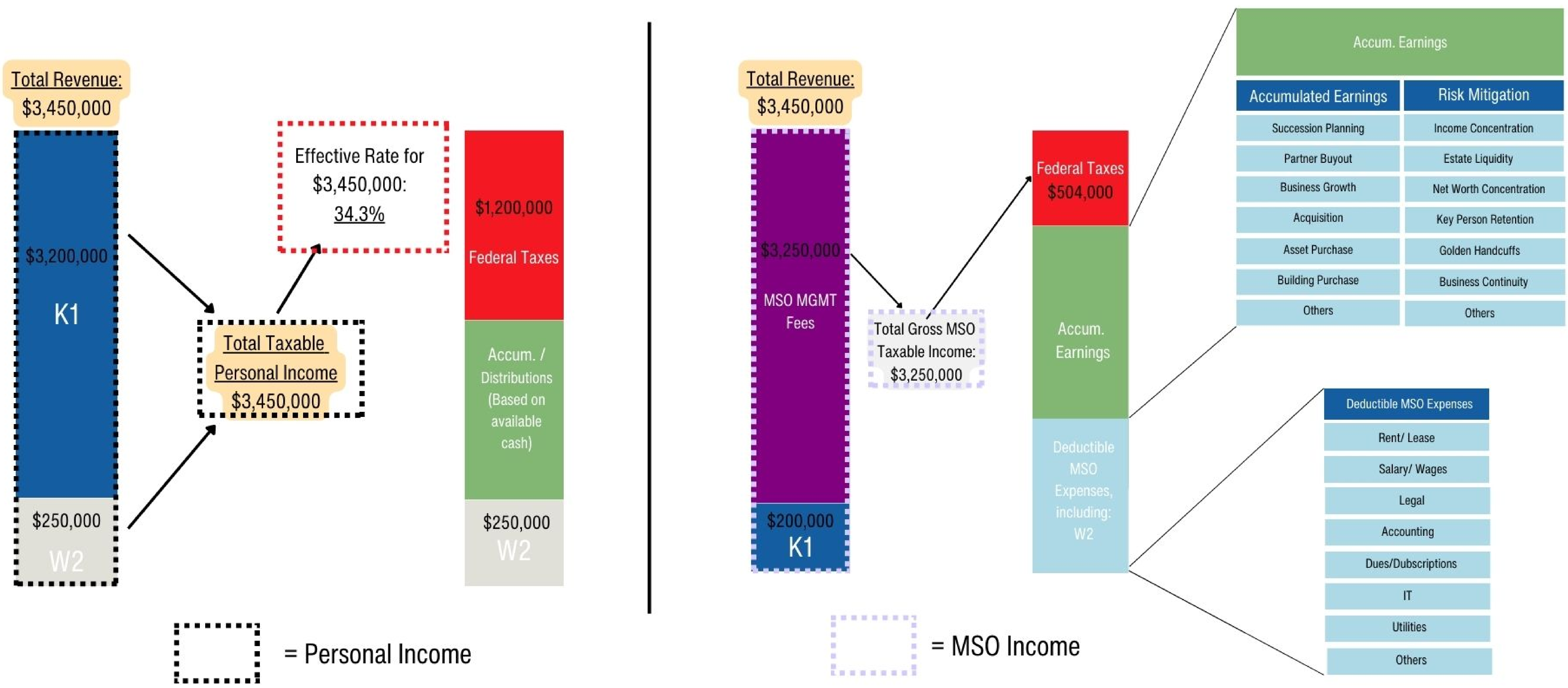
MSO STRATEGY OVERVIEW: MONEY MOVEMENT

[Client]'s Scenario



MSO STRATEGY OVERVIEW: UTILIZING FUNDS IN THE MSO

Utilizing MSO Savings



ADDRESSING THE TAX GAP

Tax Gap:
Through a holistic analysis of your business's current financial structure, we assessed your acute risk of unnecessary taxation based on multiple parameters, including:

- Federal income tax rates
- Self-employment taxes
- State specific taxes
- The 2026 Sunset Tax Increases (QIBD, personal margin rates, estate tax)

Federal Income Tax

Your operating company is structured as a pass though entity, which means its taxable income is flowing to you personally in the form of a schedule K-1 form on your tax form 1040.

You should limit pass through income as reasonably possible, due to progressively increasing Federal top marginal tax rates of 32%, 35%, and 37%.

There is a significant gap between what you are currently paying in federal income tax and what you could be paying under current tax guidelines by utilizing an MSO. (See "Tax Scenario Base Line" Total Tax Box A1 compared to Total Tax Box A2, resulting in Tax Savings box A3. For an optimized scenario, reference "Tax Scenario Recommended Strategy", Total Tax Box A1 compared to Total Tax Box A2, resulting in Tax Savings box A3, driven by Business Income Deductions of 20% in Box D1).

Self-employment Tax
Operating Companies structured as a single member LLCs, Professional LLCs, or Partnerships may be subject to self-employment taxation. Generally, the amount subject to self-employment tax is 92.35% of your net earnings from self-employment.

The law sets the self-employment tax rate as a percentage of your net earnings from self-employment. This rate consists of 12.4% for social security and 2.9% for Medicare taxes. An individual is liable for Additional Medicare Tax of 0.9% if the individual's wages, compensation, or self-employment income (together with that of his or her spouse if filing a joint return) exceed the threshold amount of $250,000.00.

There is a significant gap between what you are paying now in self-employment tax and what you could be paying under current tax guidelines by utilizing an MSO. (See "Tax Scenario Base Line" Self-Employment tax Box B1 compared to Self-Employment Tax Box B2,, resulting in Tax Savings Box B3. For an optimized version, see "Tax Scenario Recommended Strategy" Self-Employment tax Box B1, compared to Self-Employment Tax Box B2, resulting in Tax Savings Box B3)

STATE APPLICATION (TN EXAMPLE)

State Income Tax - Tennessee

If you are a corporation, limited partnership, limited liability company, or business trust that is chartered, qualified, or registered in Tennessee or doing business in this state, then you must register for and pay franchise and excise taxes.

The franchise tax is based on the greater of net worth or the book value of real or tangible personal property owned or used in Tennessee. The excise tax is based on net earnings or income for the tax year.

Franchise tax
0.25% of the greater net worth or real tangible property in Tennessee. The minimum tax is $100.

Excise tax
6.5% of Tennessee taxable income

A single member limited liability company ("SMLLC") is disregarded for Tennessee Franchise & Excise tax purposes if:

1) the SMLLC is disregarded for federal income tax purposes

2) the SMLLC's sole owner is not a corporation under state law but is classified for federal income tax purposes as a corporation.

A properly structured LLC taxed as a C-corporation functioning as an MSO, owned by a TIST (Tennessee Investment Services Trusts) is allowed to exempt itself from Tennessee F&E tax by making an Obligated Member Entity election. As stated by Tennessee Law, where the members are fully obligated for the debts of the entity (OME) are exempt from F&E taxes. (See Box C1 in all scenarios, emphasizing the absence of state income tax when structure optimally.)

*Note: Each state requires it's own income tax analysis.

ANALYSIS: TAX ASSESSMENT, WITH & WITHOUT MSO

Tax Scenario Base Line

Name(s) as shown on return
Valued & Valued Client

	SMLLC Current	Tax Savings	SMLLC Using MSO	New MSO C-Corp	SMLLC and MSO Aggregated Data
Filing Status	Married Jointly		Married Jointly		
Number of Exemptions	2		2		
Income: Wages, salaries, tips, etc	250,000		250,000		250,000
Taxable interest and dividends					
Business Income (loss)	3,200,000		200,000	3,000,000	3,200,000
Gains (losses)					
Pension and IRA distributions					
Rental & Pass-through Income (loss)					
Farm Income (loss)					
Taxable Social Security Income					
Other Income					
Total Income	3,450,000		450,000	3,000,000	3,450,000
Adjustments to Income: Self-Employment Tax Adjustment	42,851		2,678		
IRA deduction					
Other Adjustments					
Adjusted Gross Income	3,407,149		447,322		
Itemized or Standard Deduction	25,900		25,900		
Personal Exemption or QBI Deduction	631,430		39,464		
Taxable Income	2,749,819		381,958	3,000,000	3,381,958
Tax and Credits: Tax	951,982		82,690	630,000	712,690
Credits					
Self-employment tax	**B1** 85,701	**B3** 80,345	**B2** 5,356	0	0
Other taxes	146,569		9,160	0	0
Total Tax	**A1** 1,184,252		97,206	630,000	**A2** 727,206
Payments: Withholdings	450		450		
Estimated Tax Payments					
Refundable credits & other payments					
Total Payments	450		450		
Refund					
Balance Due	1,183,802	**A3** 457,046	96,756	630,000	726,756
Marginal Tax Rate	37.00		32.00	21.00	32.00
Effective Tax Rate	35		22	21	21.50
States					
Resident Tax					**C1**
Total Tax					
Tax Savings					
State	N/A				
Federal	457,046				
Total	457,046				

See Total Tax Box A1 compared to Total Tax Box A2, resulting in Tax Savings box A3. See Self-Employment tax Box B1 compared to Self-Employment Tax Box B2,, resulting in Tax Savings Box B3.

ANALYSIS: TAX ASSESSMENT, WITH & WITHOUT MSO, OPTIMIZED

Tax Scenario Recommended Strategy

Name(s) as shown on return
Valued & Valued Client

	SMLLC Current	Tax Savings	SMLLC Using MSO	New MSO C-Corp	SMLLC and MSO Aggregated Data
Filing Status	Married Jointly		Married Jointly		
Number of Exemptions	2		2		
Income: Wages, salaries, tips, etc	250,000		250,000	20% management fees used for tax deductible expenses by 9/30	250,000
Taxable interest and dividends					
Business Income (loss)	3,200,000		200,000	D1 2,400,000	2,600,000
Gains (losses)					
Pension and IRA distributions					
Rental & Pass-through Income (loss)					
Farm Income (loss)					
Taxable Social Security Income					
Other Income					
Total Income	3,450,000		450,000	2,400,000	2,850,000
Adjustments to Income: Self-Employment Tax Adjustment	42,851		2,678		
IRA deduction					
Other Adjustments					
Adjusted Gross Income	3,407,149		447,322		
Itemized or Standard Deduction	25,900		25,900		
Personal Exemption or QBI Deduction	631,430		39,464		
Taxable Income	2,749,819		381,958	2,400,000	2,781,958
Tax and Credits: Tax	951,982		82,690	504,000	586,690
Credits					
Self-employment tax	B1 85,701	B3 80,345	B2 5,356	0	0
Other taxes	146,569		9,160	0	0
Total Tax	A1 1,184,252		97,206	504,000	A2 601,206
Payments: Withholdings	450		450		
Estimated Tax Payments					
Refundable credits & other payments					
Total Payments	450		450		
Refund					
Balance Due	1,183,802	A3 583,046	96,756	504,000	600,756
Marginal Tax Rate	37.00		32.00	21.00	32.00
Effective Tax Rate	35		22	21	21.00
States					
Resident Tax					
Total Tax					C1

Tax Savings	
State	N/A
Federal	583,046
Total	583,046

See Total Tax Box A1 compared to Total Tax Box A2, resulting in Tax Savings box A3, driven by Business Income Deductions of 20% in Box D1. See Self-Employment tax Box B1, compared to Self-Employment Tax Box B2, resulting in Tax Savings Box B3.

FUTURE PLANNING CONSIDERATIONS

2025 Sunset Provisions QBID and Margin Rate Increase
Section 199A of the Internal Revenue Code provides many owners of sole proprietorships, partnerships, S corporations and some trusts and estates a deduction of income from a qualified trade or business known as the QBID (Qualified Business Income Deduction). The deduction equals 20% of QBI from a domestic business that qualifies.

Depending on the taxpayer's taxable income, the QBI component is subject to multiple limitations including the type of trade or business, the amount of W2 wages paid by the qualified trade or business, and the unadjusted basis immediately after acquisition (UBIA) of qualified property held by the trade or business. Simply stated, the QBI deduction serves to potentially reduce a conduit entity's effective tax rate from 37% to 29.6%.

Unlike the corporate tax rate reduction of 21% (which is permanent), the QBI deduction, along with the majority of the Tax Cut and Jobs Act provisions which enacted individual tax modifications, is scheduled to sunset on December 31, 2025.
After sunsetting, the top individual marginal bracket of 37% will also revert to 39%. (See “Tax Scenario QIBD Tax Increase” QBID Exemption Box A1 to show the current deduction amount, QBID Exemption Box A2 showing the deduction phasing out, Box A3 showing the amount increase, and Balance Due Box B1 to show the resulting increase in taxes due.)

There is the potential for a significant gap in the increase in taxes owed when QBID expires and your ability to reduce federal taxes now, prior to 2026, by utilizing an MSO. (See “Tax Scenario QIBD Tax Savings” QBID Exemption Box A1 and Box A2 showing the QBID phased out, Tax Savings Box B1 for cumulative savings, State Tax Box C1 showing no additional state tax incurred, Marginal Rate Box E1 highlighting the tax rate increase.)

Estate Tax
The estate tax is a federal tax levied on the transfer of the estate of a person who dies. An estate tax applies when the value exceeds an exclusion limit set by law. Only the amount that exceeds the minimum threshold is subject to tax.
The Internal Revenue Service (IRS) requires estates with combined gross assets and prior taxable gifts exceeding $12.92 million for 2023 to file a federal estate tax return and pay estate tax as required.

The unlimited marital deduction eliminates the estate tax on assets transferred to a surviving spouse. However, when the surviving spouse who inherited the estate dies, the beneficiaries may owe estate taxes if the estate value exceeds the exclusion limit. Estate taxes are tiered, similar to federal taxes. Any estate value that exceeds $1 million or more above the exemption amount of $12.92 million currently taxed at 40%.

Unless additional action is taken by Congress, the Double Exemption provisions of the Tax Cuts and Jobs Act of 2017 are going to “sunset” on December 31, 2025. When the provisions sunset, the estate and gift tax exemption will essentially be cut in half, resulting in an updated exemption for 2026 that falls somewhere between $6 million and $7 million, indexed for inflation. Additionally, the top estate tax rate of 40% will increase to 45% on anything greater than $1 million dollars above the new $6-7 million exemption level.

ANALYSIS: 2026 QBID TAX INCREASE

Tax Scenario QBID Tax Increase

Name(s) as shown on return
Valued & Valued Client

	SMLLC 2023	Tax Increase	SMLLC 2026
Filing Status	Married Jointly		Married Jointly
Number of Exemptions	2		2
Income: Wages, salaries, tips, etc	250,000		250,000
Taxable interest and dividends			
Business Income (loss)	3,200,000		3,200,000
Gains (losses)			
Pension and IRA distributions			
Rental & Pass-through Income (loss)			
Farm Income (loss)			
Taxable Social Security Income			
Other Income			
Total Income	3,450,000		3,450,000
Adjustments to Income: Self-Employment Tax Adjustment	42,851		42,851
IRA deduction			
Other Adjustments			
Adjusted Gross Income	3,407,149		3,407,149
Itemized or Standard Deduction	25,900		25,900
Personal Exemption or QBI Deduction	A1 631,430	A3 631,430	A2
Taxable Income	2,749,819		3,381,249
Tax and Credits: Tax	951,982		1,185,611
Credits			
Self-employment tax	85,701		85,701
Other taxes	146,569		146,569
Total Tax	1,184,252		1,417,881
Payments: Withholdings	450		450
Estimated Tax Payments			
Refundable credits & other payments			
Total Payments	450		450
Refund			
Balance Due	1,183,802	B1 259,601	1,443,403
Marginal Tax Rate	37.00		39.00
Effective Tax Rate	35		37
States			
Resident Tax			
Total Tax			

Tax Increase	
State	N/A
Federal	259,601
Total	259,601

See Box A1 to show the current deduction amount, QBID Exemption Box A2 showing the deduction phasing out, Box A3 showing the amount increase, and Balance Due Box B1 to show the resulting increase in taxes due.

ANALYSIS: 2026 PROJECTION WITH MSO STRUCTURE

Tax Scenario QIBD Tax Savings

Name(s) as shown on return
Valued & Valued Client

	SMLLC 2026	Tax Savings	SMLLC 2026 Using MSO	New MSO C-Corp	SMLLC and MSO Aggregated Data
Filing Status	Married Jointly		Married Jointly		
Number of Exemptions	2		2		
Income: Wages, salaries, tips, etc	250,000		250,000	20% management fees used for tax deductible expenses by 9/30 D1	250,000
Taxable interest and dividends					
Business Income (loss)	3,200,000		200,000	2,400,000	2,600,000
Gains (losses)					
Pension and IRA distributions					
Rental & Pass-through Income (loss)					
Farm Income (loss)					
Taxable Social Security Income					
Other Income					
Total Income	3,450,000		450,000	2,400,000	2,850,000
Adjustments to Income: Self-Employment Tax Adjustment	42,851		2,678		
IRA deduction					
Other Adjustments					
Adjusted Gross Income	3,407,149		447,322		
Itemized or Standard Deduction	25,900		25,900		
Personal Exemption or QBI Deduction	A1		A2		
Taxable Income	3,381,249		421,422	2,400,000	2,821,422
Tax and Credits: Tax	1,185,611		95,318	504,000	599,318
Credits					
Self-employment tax	85,701	80,345	5,356	0	0
Other taxes	146,569		9,160	0	0
Total Tax	1,417,881		109,834	504,000	613,834
Payments: Withholdings	450		450		
Estimated Tax Payments					
Refundable credits & other payments					
Total Payments	450		450		
Refund					
Balance Due	1,443,403	B1 830,019	109,384	504,000	613,384
Marginal Tax Rate	E1 39.00		32.00	21.00	32.00
Effective Tax Rate	35		23	21	21.00
States					
Resident Tax					
Total Tax					C1
Tax Savings					
State	N/A				
Federal	830,019				
Total	830,019				

See Total Tax Box A1 compared to Total Tax Box A2, resulting in Tax Savings box A3, driven by Business Income Deductions of 20% in Box D1. See Self-Employment tax Box B1, compared to Self-Employment Tax Box B2, resulting in Tax Savings Box B3. See Box E1, highlighting the marginal tax rate increase in 2026.

TAX GAP - MSO COMPARISON
SUMMARY DATA

Tax Savings Utilizing an MSO with no expenses	
State	N/A
Federal	$457,046
Total	$457,046

Tax Savings Utilizing an MSO with 20% expenses	
State	N/A
Federal	$583,046
Total	$583,046

QBID 2026 Tax Increase W/Out MSO	
State	N/A
Federal	$259,601
Total	$259,601

Tax Savings Utilizing an MSO W/Out QBID 2026	
State	N/A
Federal	$830,019
Total	$830,019

5 Year Tax Savings	
2023	$ 583,046
2024	$ 583,046
2025	$ 583,046
2026	$ 830,019
2027	$ 830,019
Total	$3,409,176

APPENDIX:

CASE LAW, TAX CODE, REGULATIONS AND OFFICIAL GUIDANCE

Asset Protection

1. Ag Services of America, Inc. v. Nielsen, 231 F.3d 726 (10th Cir. 2000); U.S. v. Bestfoods, 524 U.S. 51 (1998); Moline Properties v. Commissioner of Internal Revenue, 319 U.S. 436 (1943). Adv. Const. Corp. v. Pilecki, 901 A.2d 189 (ME. 2006)
2. King, 533 U.S. 158, 163 (2001) (The Supreme Court Held: "[t]he corporate owner/employee, a natural person, is distinct from the corporation itself, a legally different entity with different rights and responsibilities due to its different legal status).

Corporate and Personal Tax Rates

1. Tax Cut and Jobs Act of 2017 Pub. L. 115-97
2. Person & Corp Tax Rate Code Personal 26 CFR § 1.1-1 thru § 1.1-4 Corporation 26 CFR § 1.11-1
3. S-Corp 26 USC§ 1362 LLC 26 CFR § 301.7701-3
4. **IRS Personal Tax Rates**
5. Estate and Gift Tax

Management Service Agreements, Fees and Analysis

1. Personal Services And Management Contracts 42 C.F.R. § 1001.952(d)
2. Compensation arrangements MFA 42 CFR § 411.357 6. 26 CFR § 1.11-1
3. Prepay Management Fees CFR § 1.263(a)-4 (f) 12-Month

Reasonable Compensation

1. IRC 162 A
2. IRS Reg 1.162 7

Qualified Business Income Deduction

1. 26 U.S. Code§ 199A - Qualified business income

Tax Efficiency of Premiums, Debt Service Payments, Reinvestment into a C-Corporation

1. IRC § 264; IRC § 79 11. IRC § 7702
2. 1(q)(4), and 1.7872-15(n)See Cedric Kushner Promotions, Ltd. v. 13. IRC 61
3. 54336 Federal Register/ Vol. 68, No. 180 / Wednesday, September 17, 2003 / Rules and Regulations Final regulations, see §§1.61-220), 1.83-3(e), 1.83- 6(a)(5) (ii), 1.301-1(q)(4), and 1.7872-15(n)
4. 26 CFR § 16226 CFR § 163
5. See, Start-Ups: Why Investors Prefer the Corporate Form to the L.L.C. for Tax Purposes, Caolan J. Ronan, 9 Elon L. Rev. 311, 318 (2017).

Franchise and Excise Tax - Tennessee

1. TN.gov/F&E
2. Public Acts of 2007
3. F&E Exemptions
4. Forms 183 F&E Exemptions

Tennessee Investment Services Trust

1. TIST

Self-Employment Tax

1. IRS Self-Employment Tax

Qualified Business Income Deduction

1. Section 199a

C Corp to S Corp Conversion

1. IRC § 1374(d)(7))