



# Tax and Risk Assessment Report

## PURPOSE



Assess the current & future-state status of your position against the primary categories of financial and business risk



Analyze your specific financial documents (2 years business and personal returns, PFS, balance sheets) to ensure a thorough and personalized report



Review potential financial & operational risks and provide strategies & solutions to explore with your financial professionals



## FORMAL EVALUATION

Your 30-page report is customized specifically for you based off of your financial documentation, with additional third-party verification by a Tax Attorney on feasibility outlined in your report.



## INFORMED

The TRA Report provides you and your financial professionals with the data you need to thoughtfully move forward.



## PRECISE

It is built off of your actual data so your team has a concrete illustration of how an MSO strategy would work for you. The report includes a reasonable compensation valuation that provides your allowable management fee range.

**SECTION 3  
INDEPENDENT TAX ANALYSIS**  
This section of the report was prepared by XXXX.

**Current Status**  
One of the benefits of utilizing an MSO strategy is the potential for tax savings. As you are currently at multiple income streams that are additive, driving your total annual income into the highest tax bracket.

- 2020 personal tax return taxable income of \$1,131,891, tax liability of \$394,432
- 2021 personal tax return taxable income of \$1,178,470, tax liability of \$394,432
- Your effective tax rate for each year is around 33%, but most of your income falls within the 10% and 15% income brackets.
- You have income and losses from tax flow through entities that are based on your personal tax and interest income.

**MSO: Assessment & Impact**  
Utilizing an MSO may mitigate your rate of contributing assets, add flexibility in measuring sharing areas when structured for tax efficiency, save you significant taxes. By creating an MSO to provide services company and organizing it as a C Corporation you can shift a portion of your highest taxable income to a favorable rate.

- The MSO is structured as a C Corporation, which is taxed at a 21% tax rate. Dividends from the C Corporation is 0-20% (based on the individual's tax bracket).
- Management fees paid to your MSO should be used for business purposes in servicing your client. Unrelated earnings should be offset for business use purposes.
- Your MSO should provide business services and not personal services to avoid being classified as a Discretionary Trust.
- Based on the analysis of your tax situation, an MSO structured structure for 2021 and 2022 could result in a savings of \$200,000 and \$200,000 respectively.

**Tax Savings Tables**

Item	MSO (Year Annual)	Real Estate (Year Annual)
Personal Income	\$1,178,470	\$1,178,470
Management Fee	(\$200,000)	(\$200,000)
Other MSO Income (2021)	\$100,000	\$100,000
Tax on Personal Income	\$175,200	\$175,200
Corporate Tax Rate @ 21%	(\$200,000) x 21% =	(\$42,000)
Total Savings with MSO	\$398,000	\$398,000
% Tax Savings	48.4%	48.4%

**SECTION 4:  
REASONABLE COMPENSATION**

**Reasonable Compensation Study**

To calculate the fair market value of services to be provided to your operating company(s), your assigned tax attorney performed the following procedures:

- Reviewed an overview for reasonable compensation. The calculated compensation from the review relies on data provided by Reasonable Compensation Reports, Bureau of Labor Statistics and US Census data to calculate a concise, unbiased, and defensible figure.
- Used industry benchmarking from CIB Global to calculate gross margin averages in the DDM market (2020).
- Calculated the minimal overhead and profit management fee using baseline percentage (15%).
- Summed the direct costs, overhead and profit to arrive at a fair market value for services using both methods.
- Determined the value of financing personally guaranteed using the Present Value method.
- Calculated the value of Other Factors, including industry expertise and years of experience in the industry, industry contacts, specialized knowledge and skills.

**(Real Estate) Development Margin**

Management and Supervision direct labor from interview - John Doe, CEO	\$462,000
Value of Personal Guarantees	\$200,000
Direct Factor	\$90,000
<b>Total Direct Labor</b>	<b>\$752,000</b>
Direct Cost (as a percentage of revenue for the Real Estate Industry)	15.7%
<b>Total Allowable Management Fee</b>	<b>\$1,007,000</b>

**Minimal Overhead and Profit**

Direct Labor	\$965,100
Overhead @ 15%	\$144,750
Profit @ 15%	\$144,750
<b>Direct Labor Management Fee</b>	<b>\$1,254,600</b>

Based on our analysis, the reasonable range for the management fee is **\$1,254,637 to \$1,907,677**.

