

CASE STUDY

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CREATIVE SOLUTIONS

COMMERCIAL INSTALLATION
- CASE STUDY



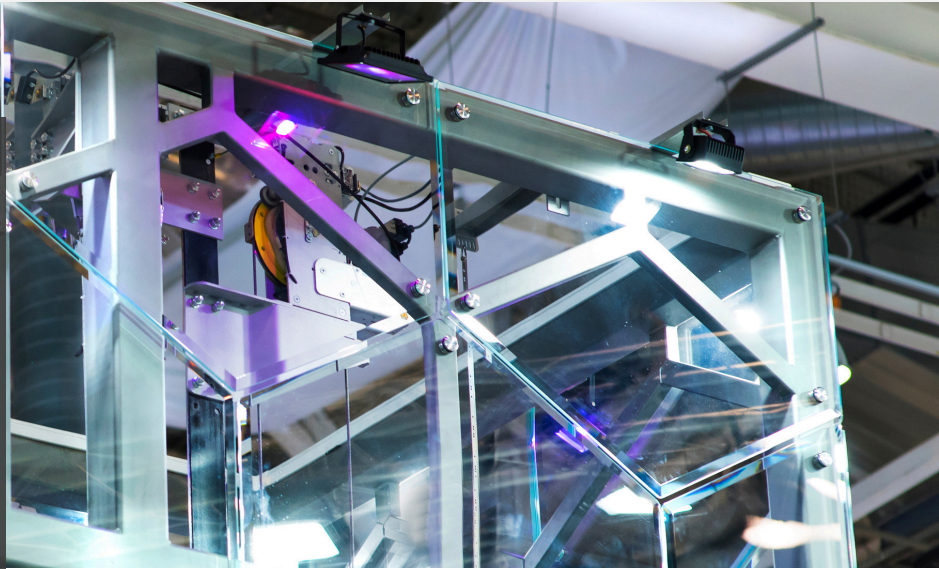
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THE PROBLEM

The client, a business owner aged 62, purchased a Commercial installation and service company five years ago and implemented an MSO three years later. In 2024, he decided to sell the company for approximately \$4.5 million, with an earn-out provision. The sale exposed him to a significant capital gains tax, approximately \$4 million at a rate of 23%.

- **Business Sale:** Decided to sell the company in 2024 for approximately \$4.5 million, with an earn-out provision
- **Tax Exposure:** Faced a significant capital gains tax of approximately \$4 million at a rate of 23%
- **Earn-Out Provision:** The earn-out provision was based on meeting an EBITDA requirement, exposing the client to the risk of not earning the full earn-out

OUR OFFERED SOLUTION

Guardian Tax Consultants implemented a Management Service Organization (MSO) to address these issues. The MSO strategy included:

- **Sale Structure:** Structured the sale to be 50% asset-based and 50% consulting income paid to the MSO taxed as a c-corporation
- **Buyer Protection:** Help protected the earn-out provision as the management fee not impact the operating companies EBITA
- **Consulting Income:** Paid consulting income of approximately \$2 million to the MSO over the earn-out period
- **Cash Balance Plan:** Set up a cash balance plan within the MSO taxed as a c-corporation with maximum allowable contributions over the first three policy plan years
- **Tax Reduction:** Reduced capital gains tax by \$460,000 by restructuring \$2 million of capital gains as consulting income, moving it into the C-corporation, and then into the cash balance plan



IMPACT AND RESULTS

The MSO strategy had a transformative impact on the Commercial installation and service's financial health and operational efficiency:

- **EBITDA Increase:** Removed the client's wages from the Operating Company, increasing EBITDA
- **Risk Reduction:** Reduced the risk of not receiving his earn-out
- **Death Benefit:** Provided a death benefit within the insurance policy, with a portion being tax-free to heirs
- **Future Tax Flexibility:** Distributed remaining growth in the cash balance plan over life expectancy through an IRA
- **Long-Term Benefits:** Allowed flexibility in controlling future taxes and provided long-term financial benefits and stability
- **Deferred Gains Growth:** Deferred \$460,000 in capital gains into a cash balance plan that grew at 8% over six years, resulting in \$730,000 that the client would not have otherwise had

CONCLUSION

Guardian Tax Consultants successfully implemented a tax mitigation strategy through an MSO and cash balance plan, ensuring the client maximized his financial gains from the business sale while minimizing tax liabilities. This comprehensive approach provided both immediate and long-term financial security for the client, addressing his needs throughout the sale and beyond.