

# CASE STUDY

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GUARDIAN  
TAX CONSULTANTS

## CREATIVE SOLUTIONS

ENGINEERING SERVICES  
- CASE STUDY



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## THE PROBLEM

The proprietors of an engineering firm, who were equal 50% / 50% partners, managed three operating entities for design, installation, and service, employing significant number of staff. Their business earned \$15 million in net income and was taxed as a PLLC. They faced challenges such as high safety risks, asset commingling issues, director retention, lack of a structured exit plan, and no funding mechanism for their buy-sell agreement.

- **Safety Risks:** High-risk work involving hazardous conditions potentially leading to severe accidents.
- **Asset Commingling:** Employees worked across all three companies, paid from one without proper documentation, risking asset commingling.
- **Director Retention:** Directors were paid bonuses based on profits, risking turnover during low-profit years.
- **Exit Strategy:** Lack of a structured exit plan, especially critical given the age difference between the two owners.
- **Insurance Coverage:** No insurance policy to fund a buy-sell agreement.

## OUR OFFERED SOLUTION

Upon engaging Guardian, they implemented an MSO strategy that transformed their business operations significantly. Key steps and outcomes included:

- **Employee Restructuring:** Established an LLC owned by the MSO to centralize employee management, mitigating accident risks and protecting their operating companies' capital, and enhancing efficiency in resource and labor hour utilization across all entities.
- **Financial Benefits:** Each business owner saved \$2.5 million annually in tax deferral. These savings were reinvested to purchase life insurance policies, funding their buy-sell agreements and providing tax-free retirement income. The insurance policies, held by a trust using a special purpose LLC, also were protected from estate taxes.
- **Director Retention Strategy:** Implemented tax-deferred funding for critical directors with a five-year vesting period, ensuring their retention.
- **Liquidity and Cash Flow Management:** Set up a revolving line of credit in the MSO for inventory purchases, smoothing out cash flow differences between accounts receivable and payable. Enhanced liquidity and protected retained earnings, assets, and cash within each operating company.
- **Comprehensive Solution:** Established SERPs to retain key employees. All insurance premiums were covered by annual savings of tax deferral. The MSO provided a structured exit plan, ensuring estate tax protection and securing their firm's future.

## IMPACT AND RESULTS

The strategic overhaul provided by Guardian brought numerous benefits including:

- **Tax Savings:** \$5 million in annual tax deferral.
- **Asset Protection:** Safeguarded business assets and growing retained earnings.
- **Financial Stability:** Improved cash flow and liquidity.
- **Insurance Funding:** Ensured buy-sell operation funding and key employee retention.
- **Future Planning:** Enabled structured exit planning and retirement solutions.

Guardian's expertise in tax mitigation and financial structuring has been instrumental in securing their firm's financial future. Guardian's innovative solutions have not only provided immediate financial relief but also set them up for sustained growth and stability.

## CONCLUSION

Their partnership with Guardian has been transformative. Guardian's professional, knowledgeable, and client-focused approach has exceeded their expectations, and they confidently recommend Guardian's services to other businesses facing similar challenges.