

CASE STUDY

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GUARDIAN
TAX CONSULTANTS

CREATIVE SOLUTIONS

HOME BUILDING SUPPLY
- CASE STUDY



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THE PROBLEM

The clients, a business in the home building industry, supplying materials and equipment for both initial homebuilding and renovations, faced multiple challenges. Their business was generating roughly \$12 million in gross revenues with a net income close to \$2.8 million. However, they encountered several key issues:

- **Expansion Needs:** The need to expand to new locations while physically delivering supplies to sites.
- **Market Growth:** Market growth beyond their founding location.
- **Tax Structure:** Excessive Additional Medicare tax due to their LLC structure.
- **Entity Structure:** Lack of additional entities for subsidiaries where they intended to expand.
- **Supply Chain Issues:** Inflationary pressures and supply shocks from COVID-19 affecting their wholesale materials acquisition.
- **Financial Structure:** An outdated financial structure resulting in an unnecessary tax rate.
- **Insurance Coverage:** Absence of key man insurance policies for both co-owners.
- **Estate Planning:** Incomplete estate planning with significant business growth.

OUR OFFERED SOLUTION

Guardian Tax Consultants conducted a comprehensive evaluation through their team of professional CPAs and tax attorneys, recommending the implementation of a Management Services Organization (MSO). This strategic move included:

- **Tax Savings:** Implementing the MSO and transferring over \$2 million in management fees in the first year, leading to approximately \$420,000 in tax savings/deferral.
- **Insurance Policies:** Utilizing the tax savings to purchase keyman policies for both owners and additional survivorship policies for their children.
- **Expansion:** Establishing a new wholesale retail location out of state.
- **Inventory Management:** Setting up a line of credit to maintain in-house supply for delivery, mitigating supply shocks.
- **Operational Efficiency:** Gaining efficiency through resource sharing by servicing operating companies under a single management entity.
- **Asset Protection:** Protecting assets while mitigating increased retained earnings through management fees.
- **Estate Planning:** Integrating the management company into their estate plan for future asset management or business transition.

IMPACT AND RESULTS

The Introduction of the MSO led to significant positive impacts:

- **Tax Savings:** Realization of substantial tax savings and improved cash flow.
- **Financial Structure:** Enhanced financial structure allowing for the expansion into new markets.
- **Supply Chain Resilience:** Improved supply chain resilience through better inventory management.
- **Risk Management:** Effective estate planning and risk management with appropriate insurance coverage.
- **Operational Efficiency:** Streamlined operations and reduced tax liabilities, supporting sustainable business growth and stability.

CONCLUSION

Through Guardian Tax Consultants' innovative and expert approach, the client successfully navigated their financial and operational challenges, achieving greater tax efficiency, improved asset protection, and a robust expansion strategy. The tailored solutions provided by Guardian not only addressed immediate concerns but also set the foundation for long-term business success and legacy planning.