

# CASE STUDY

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## CREATIVE SOLUTIONS

LAW FIRM - CASE STUDY



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## THE PROBLEM

The law firm, known for its litigation specialty and consulting services, faced several financial and operational challenges.

- **High Tax Burden:** The primary owner paid significant federal income taxes in years with large settlements.
- **Leased Building:** One of the law firm owners owned a building that he leased to his company and also leased multiple offices within it to other clients, adding liability risk and co-mingling risk.
- **Cash Flow Variability:** Net income ranged from \$2-\$5 million annually, with lower liquidity in years with fewer settlements.
- **Employee Retention:** No plans were in place to retain high-performing attorneys, risking their recruitment by other firms.
- **Lack of Succession Planning:** The owner, in his early 50s, had no succession or estate planning, endangering the firm's future stability.
- **Retained Earnings Risk:** The operating company accumulated large amounts of retained earnings during years with large settlements, which had to be held at risk to prepare for liquidity challenges in years with lower settlements.

## OUR OFFERED SOLUTION

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

- **Enhanced Liquidity:** \$4.5 million in management fees were paid to the MSO and created a \$900,000 tax deferral, which funded various financial plans.
- **Employee Retention Plans:** Key employees received retirement plans with vesting schedules, ensuring their long-term commitment.
- **Keyman Insurance:** A keyman policy funded by the tax savings provided additional security and financial stability.
- **Asset Protection:** The MSO separated the operating company from the property management, reducing risks and protecting assets.
- **Multiple Tax Mitigation Strategies:** In addition to the Management Service Organization (MSO), Guardian utilized a cash balance plan to achieve the lowest effective tax rate for the client's circumstances.

## CONCLUSION

By implementing the MSO strategy, Guardian Tax Consultants provided the law firm with enhanced tax efficiency, asset protection, and a robust succession plan. This strategic restructuring not only optimized the firm's financial performance but also secured the future of its key employees and ensured the continued success of the practice beyond the tenure of its primary owner.

## IMPACT AND RESULTS

The MSO strategy had a transformative impact on the law firm's financial health and operational efficiency:

- **Significant Tax Savings:** The firm deferred \$900,000 in taxes, improving overall profitability.
- **Improved Cash Flow:** The creation of a line of credit within the MSO provided a reserve for years with lower settlements.
- **Secured Employee Loyalty:** Key employees received access to valuable retirement benefits, reducing the risk of losing top talent.
- **Debt Repayment:** Funds loaned were used to pay down the office building's debt with more favorable tax conditions.
- **Operational Efficiency:** The firm optimized its use of capital, ensuring better liquidity management during lean years.
- **Future Stability:** A comprehensive buy-sell and succession plan was established, ensuring the firm's continuity and future growth.