

CASE STUDY

GUARDIANTAXCONSULTANTS.COM



GUARDIAN
TAX CONSULTANTS

CREATIVE SOLUTIONS

MEDICAL PRACTICE - CASE STUDY



615-333-7653



Info@guardiantaxconsultants.com



554 Franklin Rd, Suite 105 Franklin,
TN 37069



THE PROBLEM

The client, an optometrist aged 69, transitioned his practice to a concierge model in 2019 and planned to work for another five years. His largest asset was his office building, leased to third party, valued at \$1.5 million, with a basis of \$500,000. The impending sale of the building would expose him to \$270,000 in capital gains tax with depreciation recapture, as well as ordinary income taxes on his current year wages of \$250,000. His personal net worth and income were highly concentrated in the business, and his retirement plan expectations were dependent on the sale of his business and building.

- **Tax Exposure:** Impending sale of the building would expose him to \$270,000 in capital gains tax with depreciation recapture, and ordinary income taxes on current year wages of \$250,000
- **Financial Concentration:** Personal net worth and income highly concentrated in the business
- **Retirement Planning:** Retirement plan expectations dependent on the sale of his business and building
- **Business Exit:** The business itself was not sellable, so he needed to sell the commercial building he had invested in over many years to exit the business

OUR OFFERED SOLUTION

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

- **Ownership Transfer:** Advised transferring the building's ownership tax-free into an MSO, taxed as a C-corporation, two years before selling it
- **Building Sale:** Sold the building held within the MSO C-corporation, resulting in a net capital gain of \$750,000
- **Cash Balance Plan:** Established a cash balance plan within the MSO, with a tax deductible contribution of \$750,000 and subsequent smaller contributions over the next four years of concierge wages
- **Tax Elimination:** Eliminated all personal capital gains tax (\$270,000) from the building sale by having the asset held by a corporation
- **Investment Strategy:** Invested funds in a cash balance plan with life insurance and other traditional investments, designed to terminate at age 75 and then roll over to an IRA for retirement income
- **Insurability Issue:** Insured the spouse on the cash balance plan due to the doctor's insurability issues



IMPACT AND RESULTS

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

- **Tax Reduction:** Reduced annual taxes until full retirement
- **Retirement Plan:** Provided a structured plan for retirement income by rolling over the cash balance plan to an IRA at age 75
- **Death Benefit:** Delivered a death benefit inside the insurance policy, with a portion being tax-free to heirs
- **Future Tax Flexibility:** Allowed flexibility in controlling future taxes and provided financial security for retirement
- **Deferred Gains Growth:** Deferred \$270,000 in capital gains into a cash balance plan that grew at 8% over six years, resulting in \$429,000 that the client would not have otherwise had

CONCLUSION

Through Guardian Tax Consultants' strategic advice and implementation of the MSO and cash balance plan, the optometrist effectively mitigated his tax liabilities and established a robust retirement plan. This comprehensive solution ensured both immediate tax savings and long-term financial security, addressing the client's immediate and future needs.