

CASE STUDY

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TAX CONSULTANTS

CREATIVE SOLUTIONS

REAL ESTATE- CASE STUDY

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THE PROBLEM

A prominent real estate developer with a significant net worth of approximately \$100 million and an annual net income of \$20 million faced numerous financial challenges. The client operated several companies involved in land development, home building, and commercial property management. These ventures presented complexities such as managing bank loans, economic fluctuations, and substantial tax liabilities. Additionally, the client was concerned about estate preservation and liquidity, aiming to efficiently transfer his business legacy to his heirs.

Key challenges included:

- **Variability in depreciation:** The annual fluctuation in depreciation expenses due to differing asset purchases, remaining useful life, and use of accelerated depreciation methods.
- **Bank Loans and Economic Fluctuations:** Frequent negotiations and changes in collateral, interest rates, and demand for properties.
- **Tax Liabilities:** Exposure to additional Medicare tax due to LLC structures. Additionally, depreciated assets were increasing in value while their tax basis declined, resulting in significant future taxes when transferred or sold.
- **Estate Planning Concerns:** Need for estate planning and liquidity as the client's estate was expected to grow to nearly \$400 million.
- **Legacy Transfer:** Desire to efficiently pass on the business and assets to his heirs.
- **Retained Earnings Risk:** Growing retained earnings in high-profit years.
- **Asset Protection:** Multiple entities exposed potential risk and commingling of assets.

OUR OFFERED SOLUTION

Guardian Tax Consultants addressed the client's needs through a comprehensive Management Service Organization (MSO) strategy. This strategy involved creating an MSO to service the operating companies, thus optimizing tax efficiency and providing a robust financial framework.

Key solutions included:

- **MSO Formation:** Created an MSO to service operating companies, benefiting from a 21% corporate tax rate.
- **Family Limited Partnership:** Established to transfer assets to the client's children in a tax-efficient manner.
- **Estate Freeze:** Proposed to lock in the value of the estate and minimize future tax exposure.
- **Split-Dollar Loan Strategy:** Funded life insurance policies to address estate tax liquidity needs.
- **Capital Provision:** Provided lending capital for business operations and equipment purchases, maximizing depreciation benefits.

CONCLUSION

Guardian Tax Consultants' innovative MSO strategy provided the real estate developer with a robust financial framework, addressing both immediate tax savings and long-term estate planning needs. The client successfully reduced annual tax liabilities, ensured the smooth transfer of his business legacy to his children, and fortified the financial health of his enterprises.

IMPACT AND RESULTS

The Introduction of the MSO led to significant positive impacts:

- **Annual Tax Savings:** Approximately \$2.8 million saved annually.
- **Enhanced Cash Flow:** Improved liquidity through optimized financial structuring.
- **Reduced Reliance on Bank Financing:** Capital from the MSO reduced the need for less favorable bank loans.
- **Efficient Estate Planning:** Secure and tax-efficient transfer of the business and assets to the client's children.
- **Long-term Financial Stability:** Ensured the financial health of the client's enterprises and legacy.
- **Retained Earnings:** Managed growing retained earnings effectively, reducing risk during high-profit years.
- **Asset Protection:** Enhanced protection through proper structuring, reducing exposure and risk from commingling of assets.
- **Reduced Reliance on Depreciation:** Deploy tax mitigation strategies to decrease dependence on depreciation.