



PRESERVING A \$600M REAL ESTATE LEGACY CASE STUDY

THE PROBLEM

A married couple built a \$600 million real estate portfolio over their lifetime. After the husband's death, the 65-year-old surviving spouse inherited the estate. Despite generating \$8 million in annual net income, the estate faced significant liquidity challenges, making it difficult to meet an estimated \$150M–\$200M in estate taxes. The trust structure lacked tax-efficient strategies, adding to the financial strain.

- **Liquidity Challenge:** Limited cash flow to cover substantial estate taxes.
- **Tax Inefficiencies:** Absence of mechanisms for deductions, credits, and offsets.
- **Family Involvement:** Four children actively managing the properties sought a plan to:
 - Preserve the estate's long-term value.
 - Reduce tax liabilities.
 - Ensure equitable wealth distribution.
 - Maintain operational liquidity.

OUR OFFERED SOLUTION

1. Tax-Efficient MSO Setup:

- An MSO taxed as a C-corporation was established to oversee the real estate portfolio.
- Of the \$8 million annual net income, \$3 million was allocated as deductible management fees to the MSO. This reduced taxable income at the operating level and deferred approximately \$750,000 in taxes annually.

2. Split-Dollar Life Insurance Arrangement:

- A life insurance policy with a guaranteed death benefit was procured to cover estate tax liabilities.
- Premiums for the policy were primarily funded using the tax deferrals generated by the MSO structure.
- A split-dollar agreement was established, allowing the C-corporation (MSO) to pay the premiums and accrue an AFR (Applicable Federal Rate) interest-bearing note.
- Upon the surviving spouse's passing, the note's principal was repaid to the MSO, which was owned by the children, ensuring a seamless transfer of wealth.

3. Family Engagement and Ownership:

- All four children were employed by and held ownership in the MSO, aligning their efforts in property management with wealth distribution.

4. Depreciation and Loss Optimization:

- Annual property depreciation of \$1.4 million was optimized, further reducing taxable income and maximizing financial efficiency.

IMPACT AND RESULTS

- Estate Tax Liquidity: The insurance policy provided guaranteed liquidity to cover estate taxes, eliminating the need to liquidate real estate assets under unfavorable conditions.
- Annual Tax Savings: The MSO strategy deferred \$750,000 in taxes annually by leveraging a 21% corporate tax rate instead of the 37% pass-through rate.
- Predictable and Sustainable Costs: Insurance premiums were funded through deferred taxes, ensuring no additional strain on the estate's cash flow.
- Generational Wealth and Legacy Planning: The MSO allowed the family to manage the estate properties cohesively while retaining long-term ownership and operational control. Upon the spouse's passing, the note repayment strengthened the MSO's financial position, benefiting the children as owners.
- Risk Mitigation and Flexibility: The split-dollar arrangement and insurance policy added flexibility and stability, ensuring financial protection regardless of future estate tax law changes.

CONCLUSION

By implementing a tax-efficient MSO structure, optimizing deductions, and leveraging a split-dollar insurance strategy, Guardian Tax Consultants transformed a significant estate tax challenge into a manageable and sustainable financial solution. This plan safeguarded the estate's liquidity, preserved family wealth, and provided a predictable framework for intergenerational wealth management. The surviving spouse and children could confidently move forward, knowing the family's financial legacy was secure.