

Going in Depth with Management Service Organizations

For Strategic Partners



GUARDIAN
TAX CONSULTANTS

Guardian Tax Consultants

Qualification

Who is the Target Client?

- Problem Match (Target Client)
 - Private business owner
 - \$2 - \$15 M in profit
 - Frustrated with quarterly taxes
 - Need for business and estate planning



MSO Benefits

- Asset Protection
- Tax Reduction
- Increased Cash Flow
- Flexibility with Tax Law Changes
- Capital Creation for Business Owner(s)
- Synergy with other tax mitigation strategies



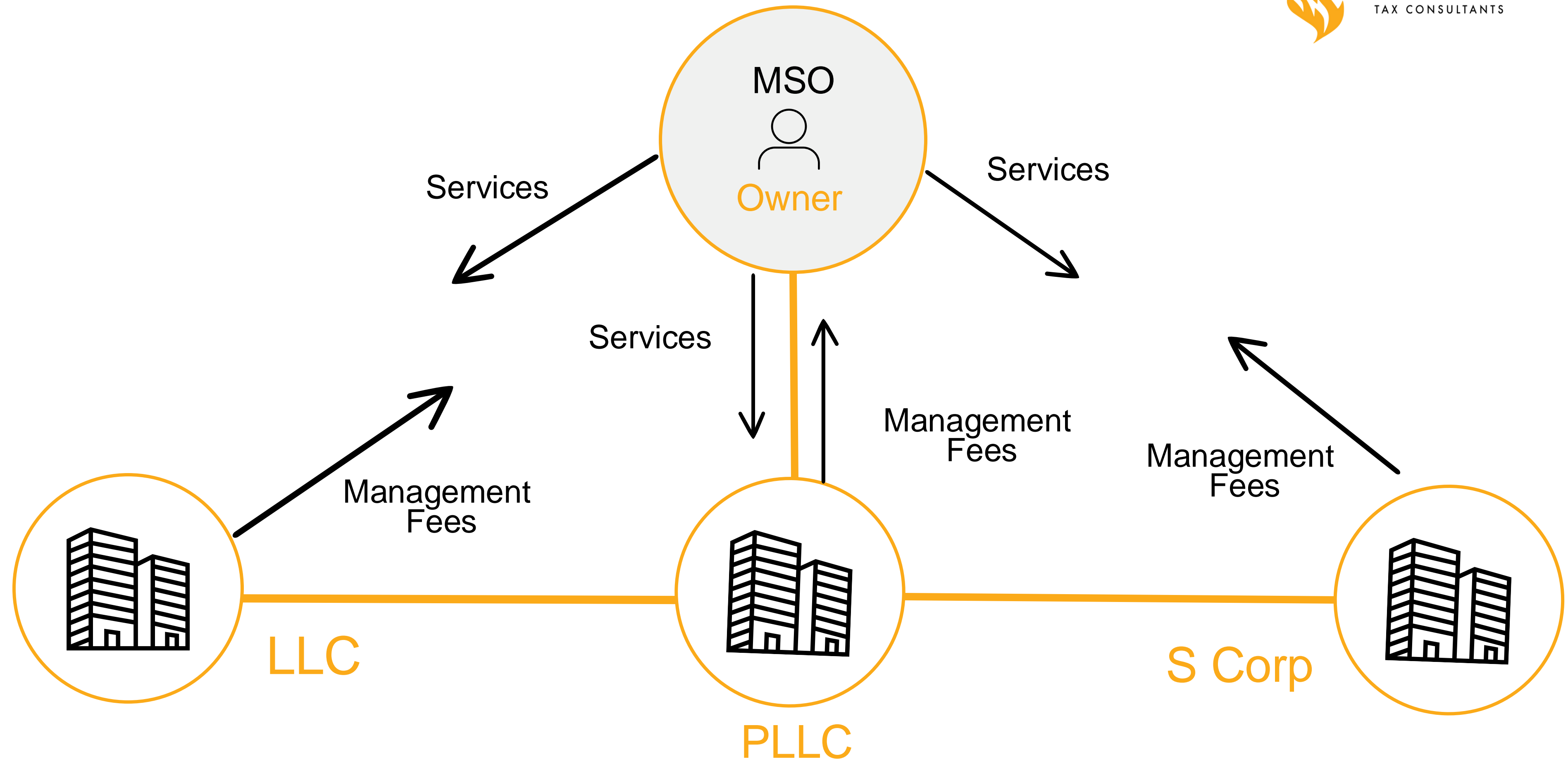
The MSO Strategy

A **Management Services Organization (MSO)** is a business that provides services to an Operating Company (OC).

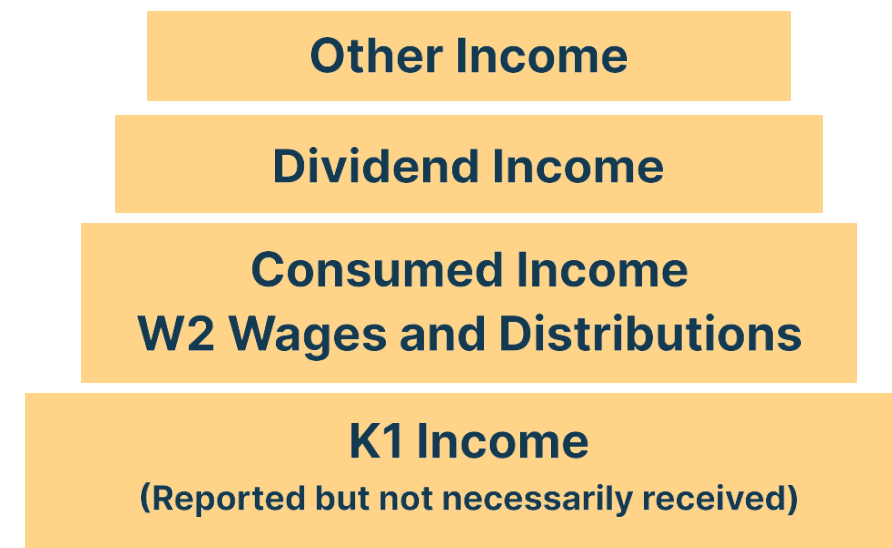
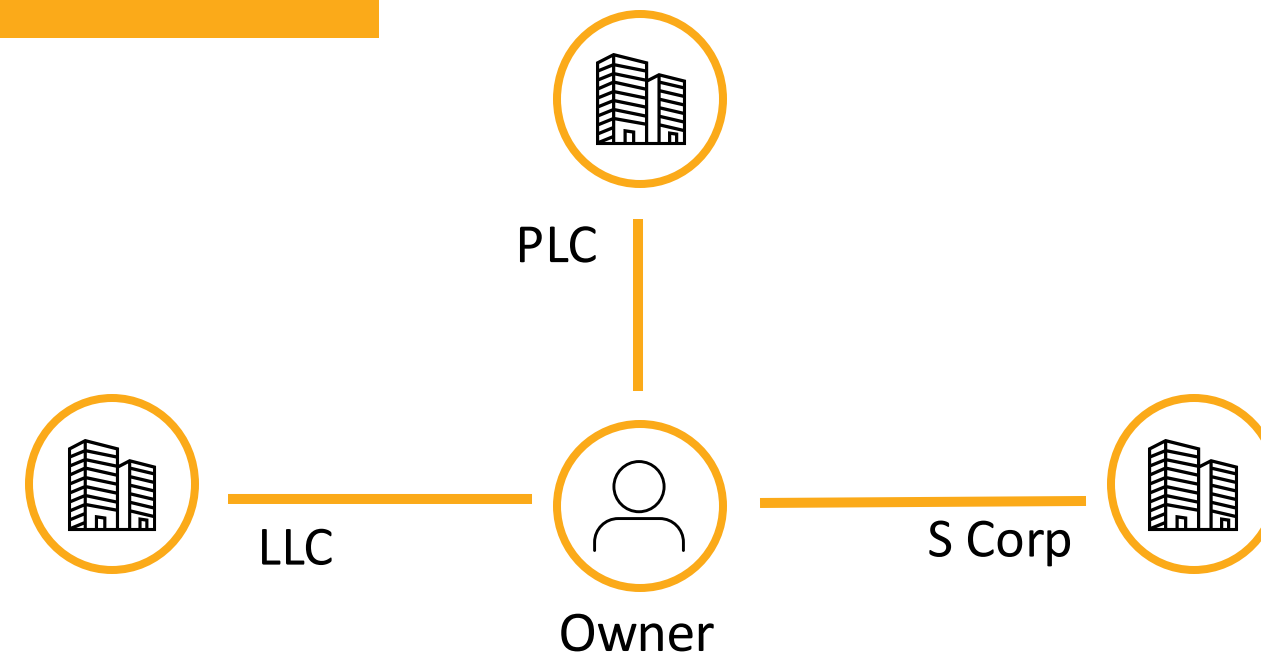
- These business services include:
 - business management, human resources, staffing, information technology, accounting, marketing, sales, and many other administrative services.



BECOME A VENDOR

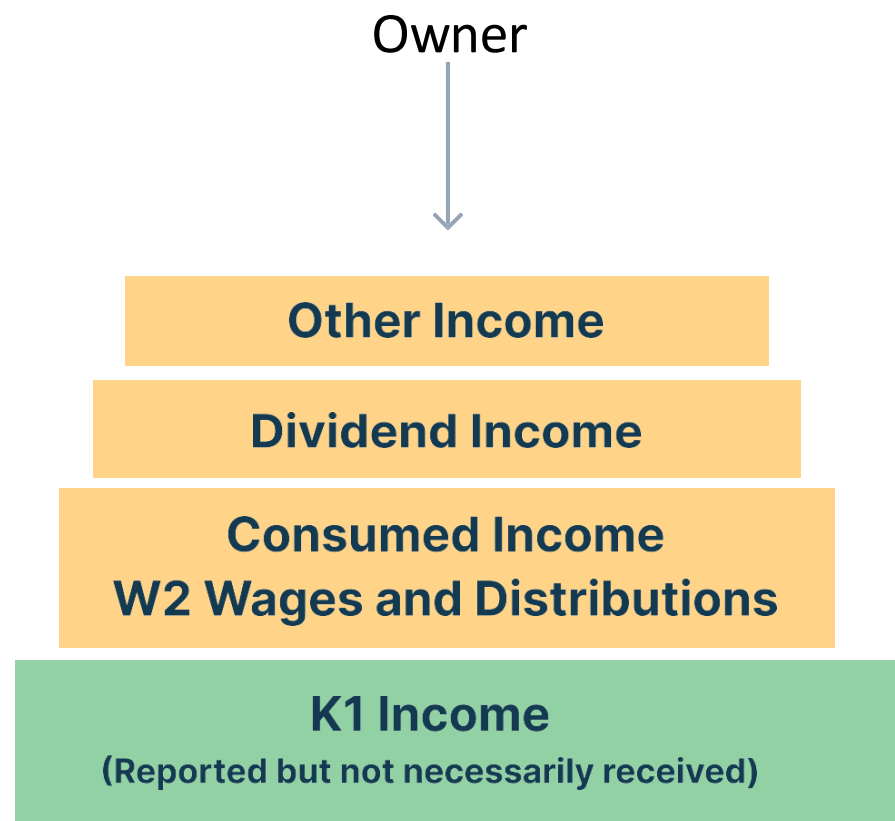
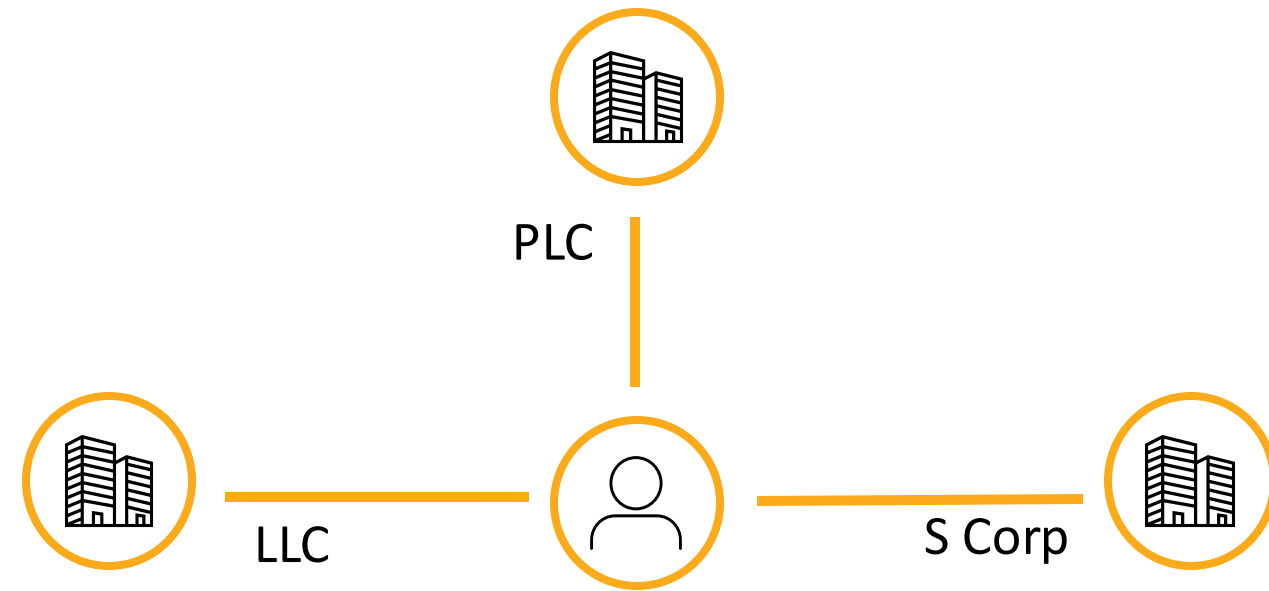


Adapting the MSO is our Solution

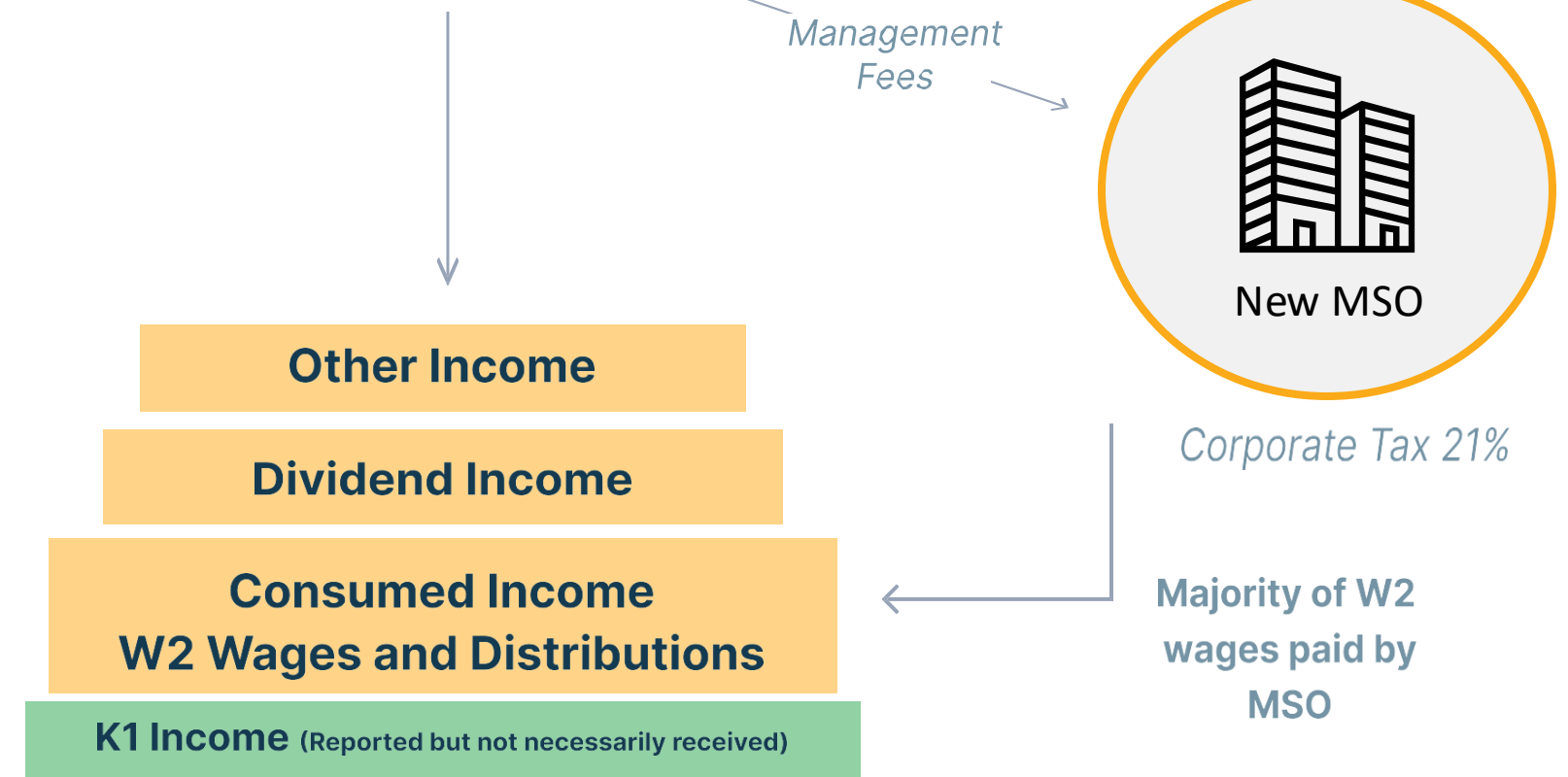
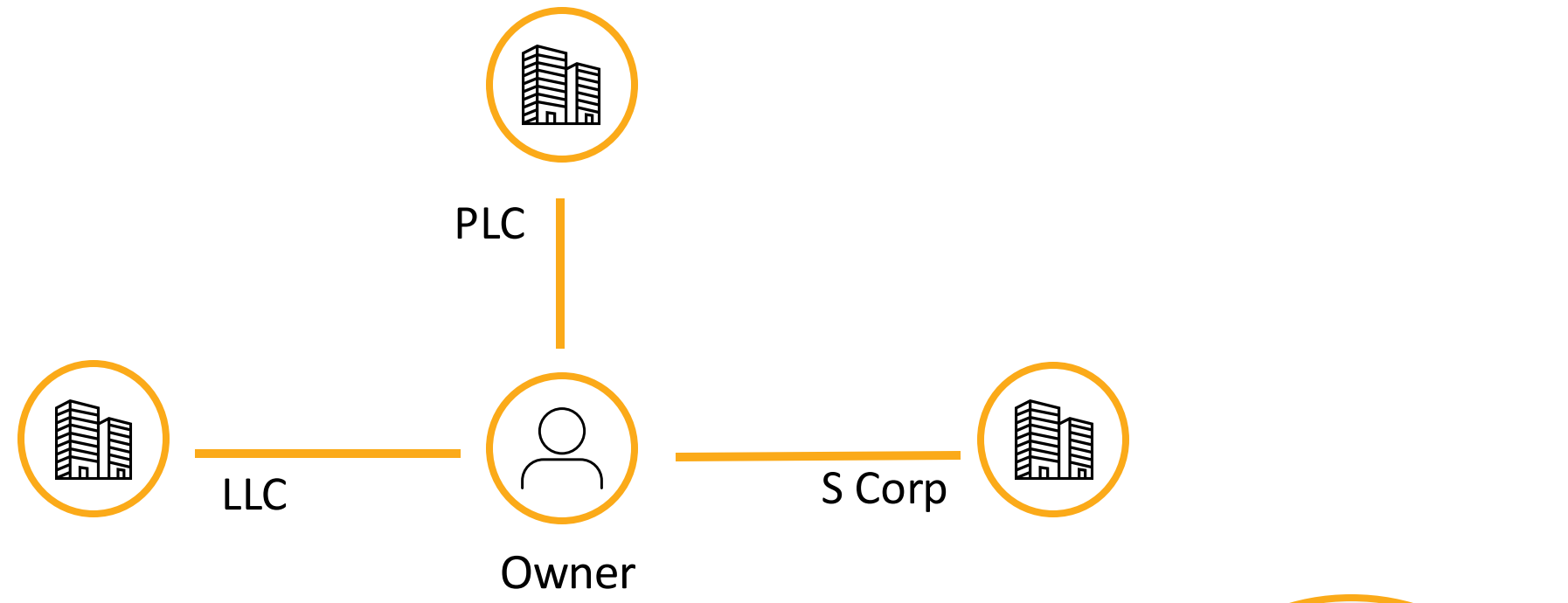


Personal Taxes
37%

Adapting the MSO is our Solution



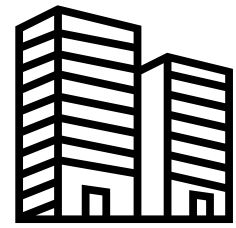
Personal Taxes
37%



Personal Taxes
Reduced

Business as is

COMPANY



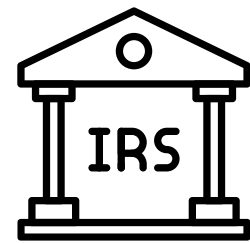
\$1,000,000
Net income

37%



Taxes
Owed

IRS

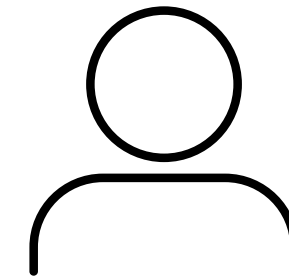


\$370,000
Due



After Taxes

Business Owner



\$630,000
Income

Funds



Business/
Enterprise
Use

Premium

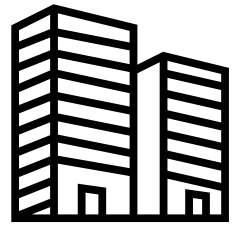


Insurance /
Risk Transfer or
Wealth
Accumulation

Business with MSO Structure



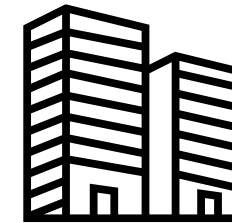
COMPANY



\$1,000,000
Net income

Management
Fees Moved

MSO Asset Protection

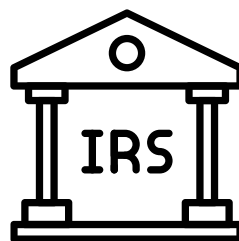


\$1,000,000
Management Fees

21%

Taxes
Owed

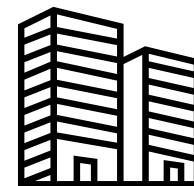
IRS



\$210,000
Due

After Taxes

MSO Asset Protection



\$790,000
Income

Funds

Premium

Business/
Enterprise Use

Insurance /
Risk Transfer or
Wealth
Accumulation

Business with MSO Structure vs Business as is

$$\mathbf{\$790,000 - \$630,000 = \$160,000}$$

The difference in tax deferral between these two examples is **\$160,000**, which can be used for business purposes including insurance premiums.

The Cost of Inaction

- Without an MSO, the company pays **\$160,000** more in taxes each year.
- If the company had saved this **\$160,000** each year and invested it with an 8% growth rate, the savings would grow significantly over time.

Year	Annual Taxes Paid	Earnings at 8%	Cumulative Loss
1	\$160,000	0	\$160,000
2	\$160,000	\$12,800	\$332,800
3	\$160,000	\$26,624	\$519,424
4	\$160,000	\$41,553.92	\$720,977.9
5	\$160,000	\$57,678.23	\$938,656.2
6	\$160,000	\$75,092.49	\$1,173,749
7	\$160,000	\$93,899.89	\$1,427,649
8	\$160,000	\$114,211.9	\$1,701,860
9	\$160,000	\$136,148.8	\$1,998,009
10	\$160,000	\$159,840.7	\$2,317,850
Total			\$2,317,850

Tax and Risk Assessment with Business Valuation (TRA)

❖ *Data to help your client make an informed decision*

- 30-Page Report
- Identifies Business Risks
- Tax Attorney Verified
- Confirms Tax Deferral
- Reasonable Compensation Report
- Business Valuation

**SECTION 3
INDEPENDENT TAX
ANALYSIS**

This section of the report was prepared by [XXX].

Current Status
One of the benefits of utilizing an MSO strategy is the potential for tax savings. As you are currently structured, you have multiple income streams that are additive, driving your total annual income into the highest tax brackets the current year.

- 2020 personal tax return: taxable income of **\$1,137,991**; tax liability of **\$394,828**
- 2021 personal tax return: taxable income of **\$1,816,470**; tax liability of **\$596,432**
- Your effective tax rate for each year is around 30%, but **most of your income falls within the highest tax rate** bracket.
- You have income and losses from **ten flow-through entities** that are taxed on your personal tax return as well as interest income.

MSO: Assessment & Impact
Utilizing an MSO may mitigate your risk of commingling assets, add flexibility in resource sharing across your company when structured for tax efficiency, save you significant taxes. By creating an MSO to provide services to your operating company and organizing it as a C-corporation you can shift a portion of your highest taxable income to the MSO, at a favorable rate:

- The MSO is structured as a C Corporation, which is taxed at a 21% tax rate. Dividends from the C Corporation are taxed between 0-20% (based on the individual's tax bracket).
- Management fees paid to your MSO should be used for business purposes in servicing your operating companies; accumulated earnings should be utilized for business use purposes.
- Your MSO should provide business services and not personal services to avoid being classified as a Personal Service Corporation.
- Based on my analysis of your tax situation, an MSO-executed structure for 2021 and 2022 could have generated savings of **\$264,461** and **\$300,393**, respectively.

Tax Savings Tables

Projected	2021 Taxes (Actual)	2021 Taxes (with MSO)
Wages	-	\$250,000
Business Income (5% Growth)	\$1,618,553	-
Management Fee (5% Growth)	-	\$1,618,553
Other MSO Expenses* (20%)	-	\$323,711
Tax on Personal Return	\$647,063	\$121,253
Corporate Tax Rate @ 21%	-	(\$983,183*21) = \$206,468
Total Tax	\$647,063	\$346,670
Total Savings with MSO	-	\$300,393
% Tax Savings	-	46.4%

TAX AND RISK ASSESSMENT (TRA) REPORT

**SECTION 4:
REASONABLE COMPENSATION**

Reasonable Compensation Study
To calculate the fair market value of services to be provided to [XXXX] your assigned tax attorney performed the following procedures:

1. Provided an interview for reasonable compensation. The calculated compensation from the interview relies on data provided by Reasonable Compensation Reports, Bureau of Labor Statistics and US Census data to calculate a concise, unbiased, and justifiable figure.
2. Used industry benchmarking from CSI Market to calculate gross margin averages in the [XXXX] market: (XXXX%)
3. Calculated the minimal overhead and profit management fee using baseline percentage (15%).
4. Summed the direct costs, overhead and profit to arrive at a fair market value for services using both methods.
5. Determined the value of financing personally guaranteed using the Present Value method.
6. Calculated the value of Other Factors, including industry expertise and years of experience in the industry, industry contacts, specialized knowledge and skill.

[Real Estate] Development Margin

Management and Supervision direct labor From Interview - [NAME & TITLE]	\$482,082
Value of Personal Guarantees	\$324,695
Other Factors	\$191,390
Total Direct Labor	\$998,167
Direct cost/labor as a percentage of revenue for the real estate industry	50.76%
Total Allowable Management Fee	\$1,907,677

Minimal Overhead and Profit

Direct Labor	\$998,167
Overhead @ 15%	\$149,725
Profit @ 15%	\$149,725
Direct Labor Management Fee	\$1,297,617

Based on our analysis, the reasonable range for the management fee is **\$1,258,837 to \$1,907,677**.

TAX AND RISK ASSESSMENT (TRA) REPORT

MSO Execution Phase

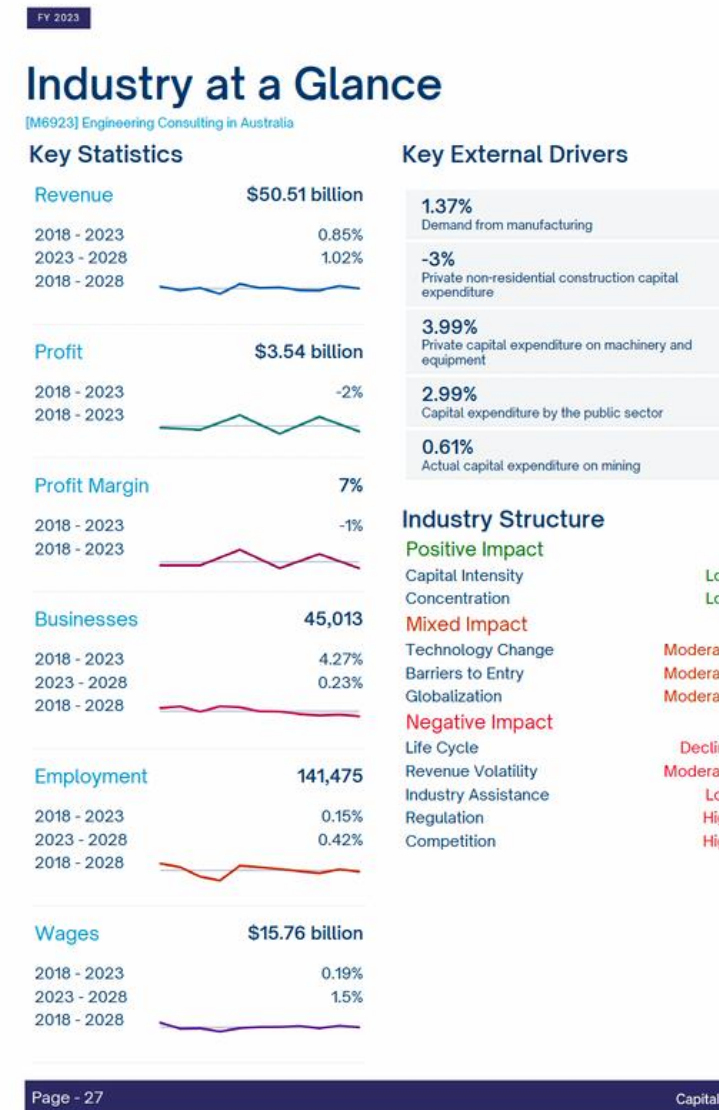
- Execution phase: 4-6 weeks, 100+ steps.
- Legal setup: draft/file documents, name checks, EIN, Articles.
- Review/execute documents, setup bank account, prepay fees.
- Onboarding/support for first fiscal year.
- Coordination with lawyers/accountants. Legal costs included.

The image displays three detailed task charts for MSO execution. Each chart is a grid with columns for roles: Owner, Accountant, Attorney, Controller, and Other. The rows list specific tasks.

- Design Phase Task Chart:** Contains 15 rows of tasks related to the initial design and legal setup phase.
- MSO Set Up Task Chart:** Contains 15 rows of tasks related to the setup of the MSO, including bank accounts and initial filings.
- MSO Maintenance Checklist:** Contains 15 rows of tasks for ongoing maintenance and reporting.

Annual Compliance and Quarterly Business Value Tracking

- Mitigate compliance risks with specialized strategies.
- Stay audit-ready with updated documents and validation.
- Ensure compliance, save costs, and manage risks with Guardian.



Case Study - Partner Buyout

- Fact Pattern:
 - Two 50% joint partners (ages 47 and 61) of an engineering company organized as an LLC.
 - Company generated \$85 million in gross annual revenue; \$14 million in net profit.



Case Study - Partner Buyout

Fact Pattern:

- Two 50% joint partners (ages 47 and 61) of an engineering company organized as an LLC.
- Company generated \$85 million in gross annual revenue; \$14 million in net profit.

Problem Match:

- Each partner paid ~\$2.8 million in federal taxes.
- Each partner's personal net worth and income were highly concentrated in the business.
- Age difference in the owners made succession/exit planning a challenge without sufficient liquidity

Case Study - Partner Buyout

MSO Solution:

- Each partner Implemented an MSO
- Tax savings for each partner: ~\$2.375 million
- Partner 1 (age 47) purchased an IUL with \$750,000 7-pay premium
 - Target premium was \$513,000
- Partner 2 (age 60) purchased an IUL with \$2,000,000 7-pay premium
 - Target premium was \$931,000
- Both partners updated buy-sell agreements with above policies as funding mechanism

Case Study - Partner Buyout

Long Term Benefits:

- Partners had sufficient liquidity and outside income to maintain their quality of life in the event of any plan shortfalls or business failures
- 5 years later, Partner 2, now age 64 years old, sold most of his business interest to the younger partner.
- The MSO was used to hold the seller note and helped with tax efficiency on the sale of shares
 - Saved \$2M in after tax cash flow by paying down principal with MSO's 21% vs 37% passthrough