

Going in Depth with Management Service Organizations

For Strategic Partners



Guardian Tax Consultants

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Qualification

Who is the Target Client?

- Business Owner (Target Client)
 - Income exceeds \$1 million
 - With a business valued at \$10 million or more
 - Taxes are restricting cashflow
 - Tax deferral can help grow and protect business enterprise
 - Defined exit strategy for the business and family wealth



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MSO Benefits

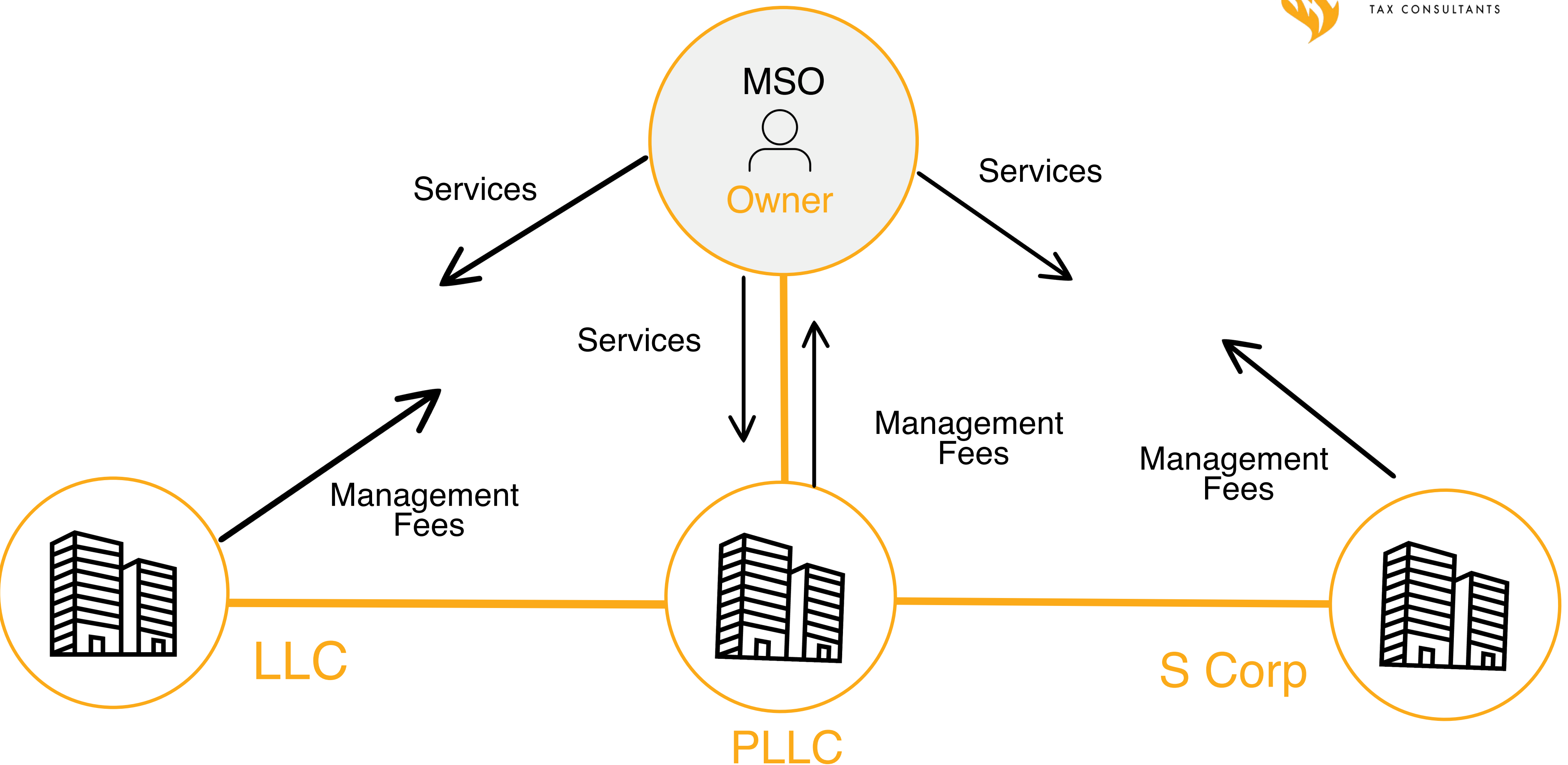
- Asset Protection
- Tax Reduction
- Increased Cash Flow
- Flexibility with Tax Law Changes
- Capital Creation for Business Owner(s)
- Synergy with other tax mitigation strategies

The MSO Strategy

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

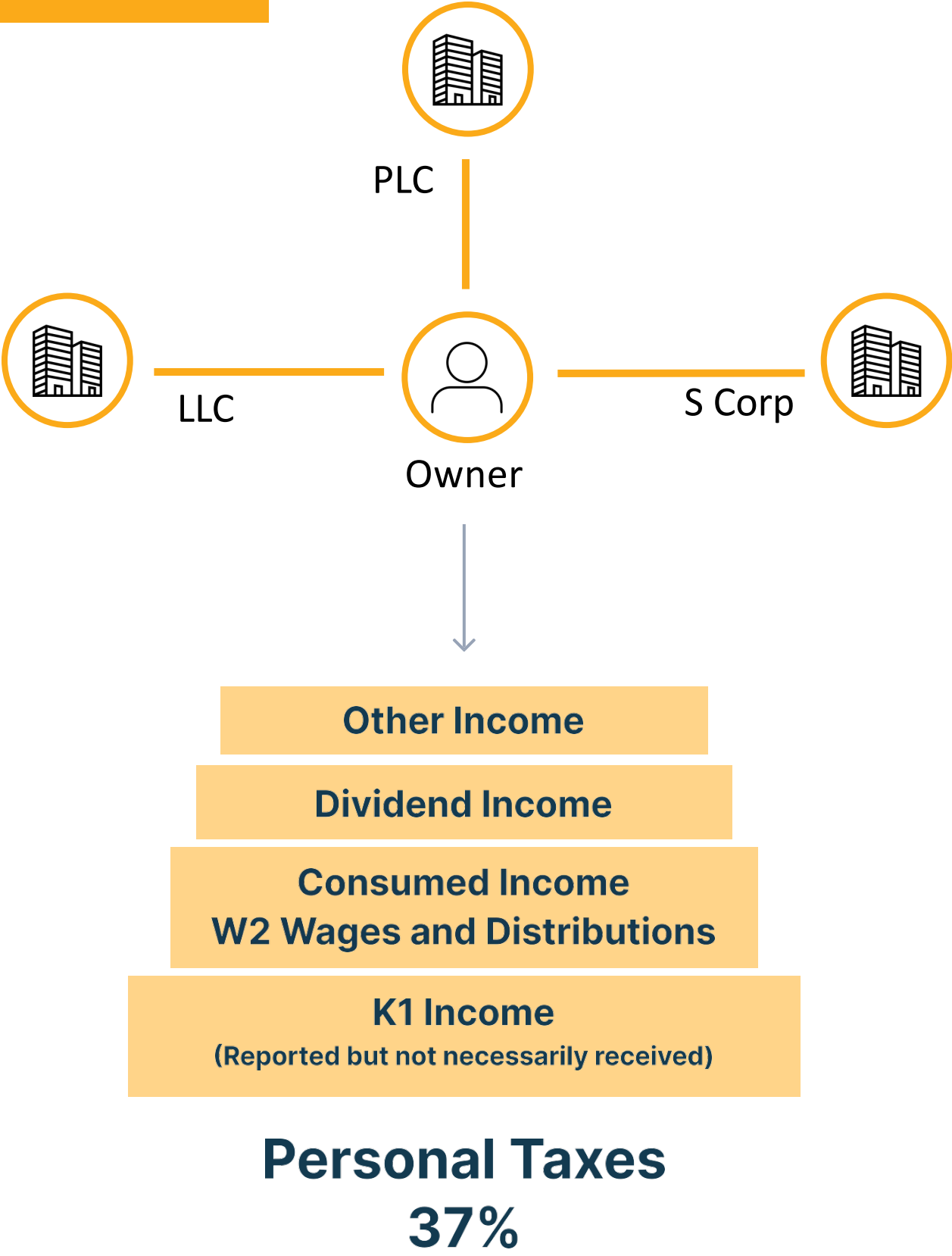
- These business services include:
 - business management, human resources, staffing, information technology, accounting, marketing, sales, and many other administrative services.

BECOME A VENDOR

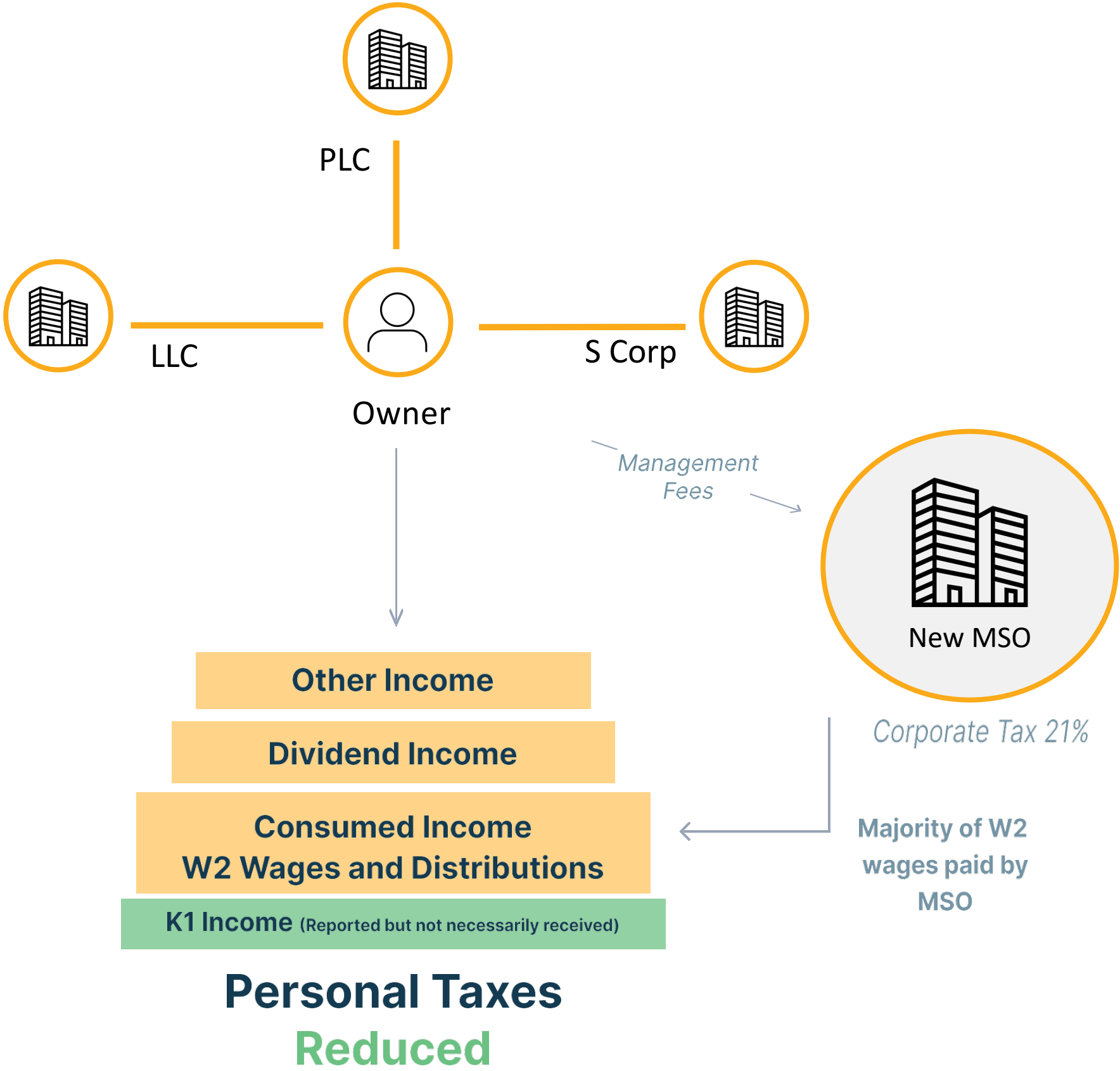
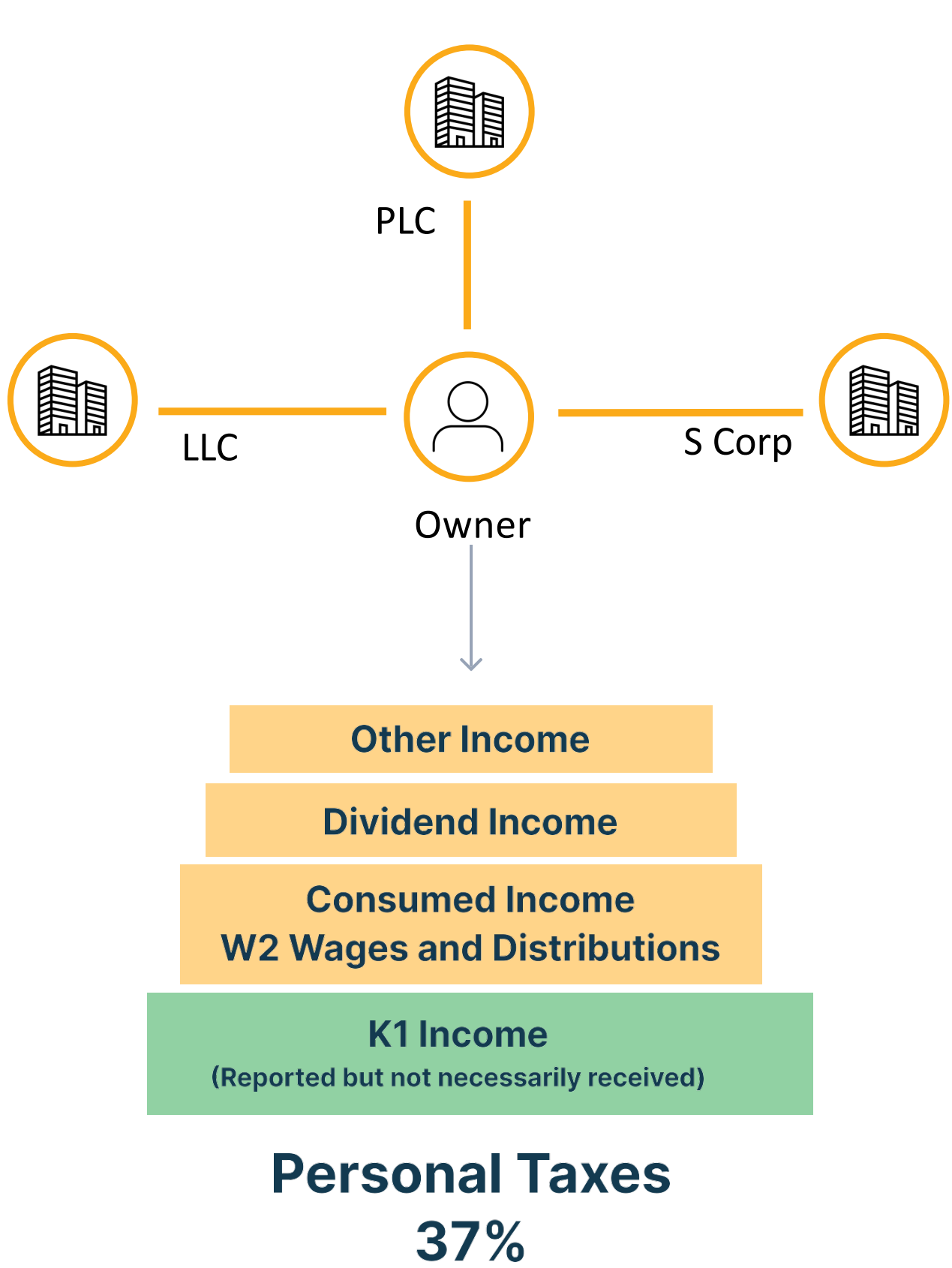


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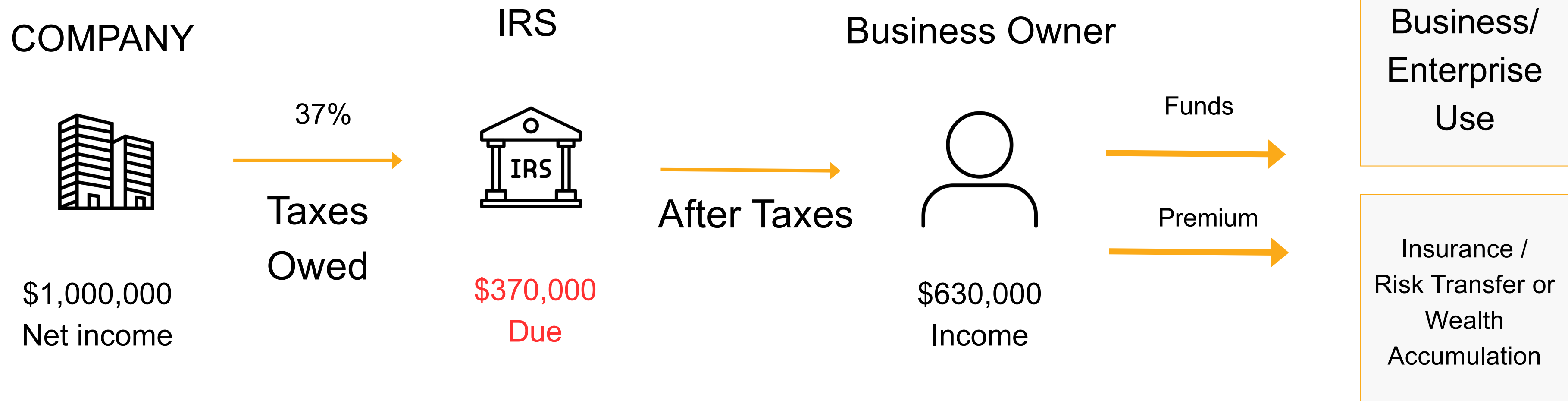
Adapting the MSO is our Solution



Adapting the MSO is our Solution



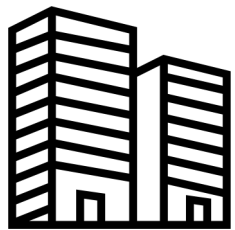
Business as is



Business with MSO Structure



COMPANY

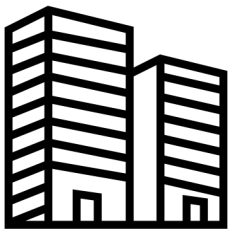


\$1,000,000
Net income

Management
Fees Moved

MSO

Asset
Protection

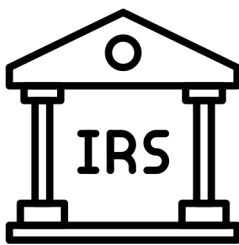


\$1,000,000
Management Fees

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

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

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



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Risks Associated with the MSO Strategy



- Applied to Unsuitable Clients: Strategy implemented with clients lacking stable cash flow, increasing financial strain and failure risk.
- Exposure to Double Taxation: Deferred income may face additional tax if not reinvested into a qualified business purpose, or upon exit without proper tax planning.
- Insufficient Financial Documentation: Lack of clear records for cash flow usage and accumulated earnings can lead to compliance issues.
- No Defined Exit Strategy: Absence of a structured distribution plan often results in tax-inefficient outcomes when unwinding the MSO.
- No Ongoing Suitability Planning: Strategy set up without accounting for future business changes, cash flow shifts, or tax law updates.

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.		
<ul style="list-style-type: none">• 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• 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: <ul style="list-style-type: none">• 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%

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: <ol style="list-style-type: none">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	\$324,865
Other Factors	\$161,390
Total Direct Labor	\$968,337
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	\$968,337
Overhead @ 15%	\$145,250
Profit @ 15%	\$145,250
Direct Labor Management Fee	\$1,258,837
Based on our analysis, the reasonable range for the management fee is \$1,258,837 to \$1,907,677 .	

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.

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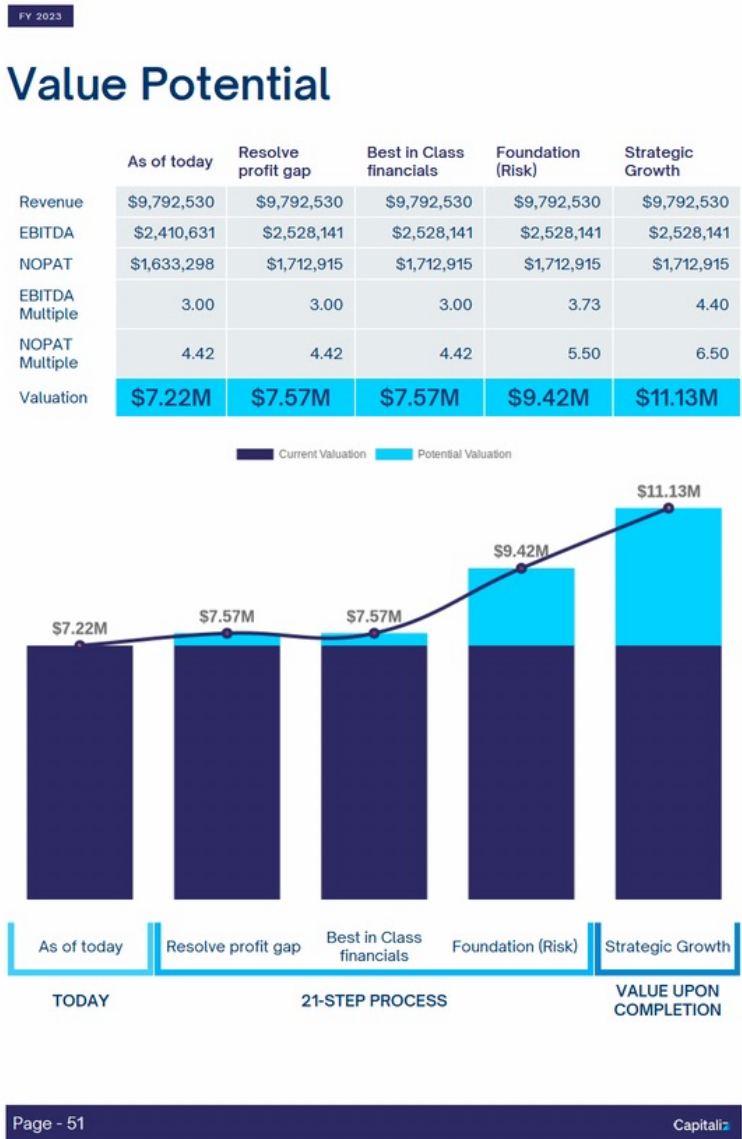
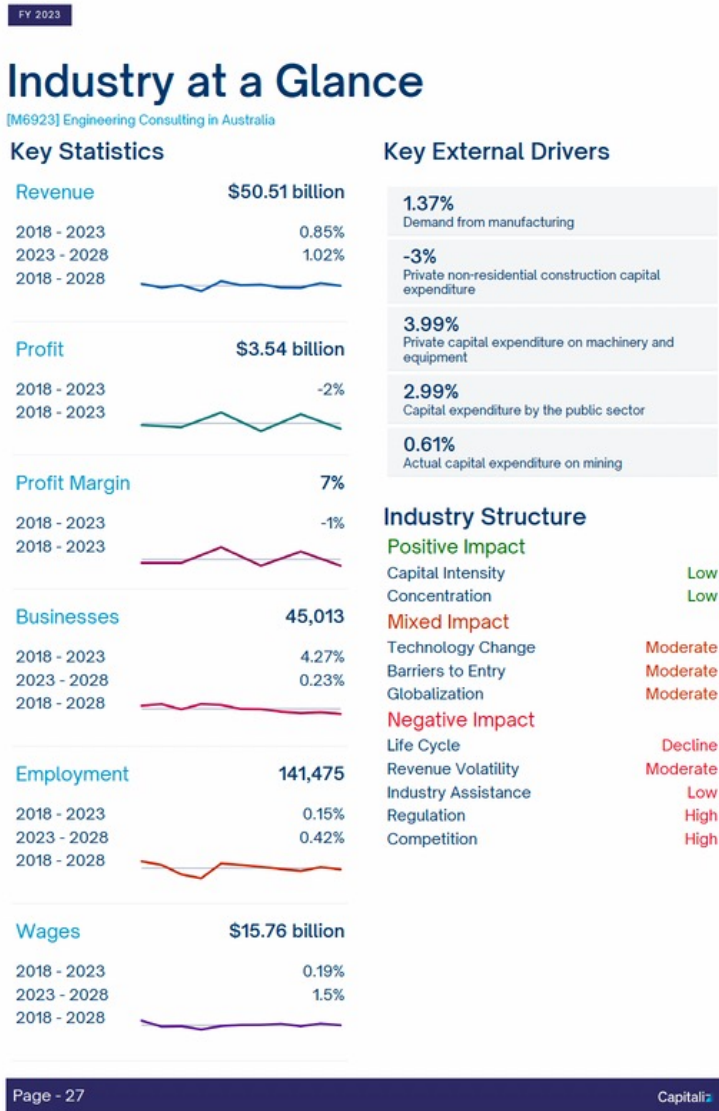
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Annual Compliance and Service

- 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



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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



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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