



# GUARDIAN TAX CONSULTANTS

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## Disclosure

This case study is for educational purposes only and reflects one real engagement. Results are not guarantees; actual outcomes depend on policy performance, financing terms, and changing assumptions. Guardian Tax Consultants (GTC) provides tax and entity planning and coordinates with vetted strategic partners for life insurance and premium financing. Clients should seek independent legal and estate planning review to confirm documents meet their objectives. All strategies assume ongoing monitoring of policy values, collateral, and compliance.

## Successful Premium-Financed MSO Strategy

Bank Exit in 6 Years · \$27M Tax-Free Death Benefit to Age 120 · Only \$272K of Client Capital Deployed

## Results Snapshot (2019–2025)

<b>Total Death Benefit at Bank Exit (Year 6)</b>	24.5M (projected \$27.4M by age 100–120)
<b>Cash Value at Bank Exit</b>	\$4.9M (≈ \$1M+ immediate liquidity after loan payoff)
<b>Client Net Capital Deployed</b>	\$272K (after-tax)
<b>Estate Tax Savings</b>	≈ \$11M
<b>Tax-Free IRR</b>	14.1% (≈21% pre-tax equivalent)
<b>Leverage Multiple</b>	1 : 100.6 (every \$1 of personal cash generated over \$100 of tax-free benefit)

*Key Insight: This outcome was achieved with only ~\$272,000 of after-tax personal funding, demonstrating the leverage power of combining MSO tax strategy, third-party premium financing, and policy performance.*

## Abstract

This article presents a case study of a closely-held engineering firm that employed an integrated planning strategy to address significant tax, succession, and estate challenges. The approach combined a Management Services Organization (MSO) restructuring with premium-financed indexed universal life (IUL) insurance held in a Spousal Lifetime Access Trust (SLAT). This multifaceted strategy provided the business owners with substantial tax deferral, liability insulation, and a fully funded buy-sell agreement, all while creating over \$27 million of estate-tax-free death benefit liquidity with an out-of-pocket cost of approximately \$272,000. Key results include a projected 14.1% internal rate of return (IRR)



on the net capital deployed (equivalent to over 21% on a pre-tax basis) and an estate tax savings of nearly \$11 million. The case underscores the value of coordinating tax strategy, estate planning, and insurance structure to achieve leveraged outcomes for high-net-worth business owners. Based on current assumptions, the strategy is projected to deliver these results and is reviewed quarterly with the client's CPA, Guardian, and financing partners.

## Introduction and Background

High-income owners of closely-held businesses often face intertwined challenges in tax management, risk exposure, and estate planning. Without careful structuring, profitable businesses can expose owners to elevated personal taxes, unchecked liability, and insufficient liquidity for succession or estate settlement.

In the case examined, a Southeastern engineering firm with annual net income exceeding \$15 million operated as a single professional LLC (PLLC) encompassing three business lines (design, installation, and service). By 2019, the firm's growth had outpaced its planning: the owners lacked a formal succession plan, carried significant liability risk under the single-entity structure, and were incurring high pass-through taxes that constrained reinvestment. Previous tax relief measures, such as the Qualified Business Income (QBI) deduction, provided only partial alleviation. These conditions set the stage for a comprehensive planning intervention to restructure the business and secure the owners' financial legacy.

## Client Profile and Planning Challenges

**Client Profile:** The subject company is an industrial engineering firm co-owned by two equal partners, each in their early 50s. As of 2019, the firm generated over \$15 million in annual profit. The enterprise operated entirely under one PLLC entity, which by 2025 grew to an estimated valuation of \$100 million. The owners' personal financial profiles were increasingly tied to the business's fortunes, with no mechanisms in place for risk segregation or liquidity upon an owner's death.

**Planning Challenges:** A diagnostic review identified several critical vulnerabilities in the firm's structure and planning:

- **Operational Liability Risk:** All operations and employees were housed under the single PLLC. A lawsuit or loss in any business line could jeopardize the entire enterprise and even the owners' personal assets.



- **Asset Commingling and Administrative Inefficiency:** With all personnel and activities in one entity, financial management and cost allocation were suboptimal.
- **Lack of Succession/Exit Plan:** The partners had no buy-sell agreement or funded mechanism for ownership transfer in the event of death or departure.
- **Insufficient Estate Liquidity:** Neither partner had substantial life insurance or liquid assets earmarked to cover estate taxes or facilitate a buyout.
- **Tax Drag on Cash Flow:** The PLLC's earnings were taxed on the owners' personal returns at ~32%, draining cash flow.

These challenges required a coordinated solution that would reduce liability exposure, implement a funded succession arrangement, provide estate tax mitigation, and improve after-tax cash flow – all with minimal disruption to the thriving business.

### **Integrated Planning Solution: MSO and Premium-Financed IUL**

To address the multi-faceted challenges, the planning team (Guardian Tax Consultants) designed an integrated strategy leveraging both entity restructuring and advanced life insurance financing:

#### **1. Management Services Organization (MSO) Restructuring**

Each partner established a separate C-corporation functioning as a Management Services Organization. The operating activities of the firm were reorganized such that the new MSOs provided management and administrative services to the original engineering practice. Additionally, a jointly owned management LLC was created to employ the staff and segregate employment liability (the MSOs contracted with this LLC for labor).

This restructuring partitioned the high-risk operations into distinct entities, insulating each business line's liabilities from the others and from the owners personally. Crucially, the MSO structure also introduced a tax arbitrage benefit: as C-corporations, the MSOs were taxed at the federal corporate rate (21%) on fees received from the operating business, in contrast to the approximately 32% pass-through rate the owners were paying.

By channeling a significant portion of the business profits into the MSOs via deductible management fees, the owners achieved tax deferral and reduction, retaining more earnings within the corporate structure for reinvestment. Over the period 2019–2025, more than \$15 million of income was shifted into the MSO entities, yielding substantial tax deferral on those earnings, lowering immediate tax outlays, and protecting the accumulated assets by moving them into a separate, insulated corporate environment.



## 2. Premium-Financed IUL and Spousal Lifetime Access Trust (SLAT)

To solve the succession and estate liquidity needs, the owners implemented a life insurance funding program anchored by two indexed universal life (IUL) policies.

- **SLAT Ownership:** A Spousal Lifetime Access Trust (SLAT) was established for each partner to own the policies from inception, keeping future death benefits outside the taxable estate (avoiding ~40% estate tax under IRC § 2042).
- **Access to Policy Cash:** Each trust's trustee was empowered to access policy cash values during the insured's lifetime, allowing use for supplemental retirement income or emergency liquidity.
- **Buy-Sell Agreement Funding:** The death benefits were matched to each partner's 50% share of the business value, funding a cross-purchase buy-sell agreement and guaranteeing business continuity for the survivor.

## 3. Buy-Sell Agreement Funding (with Structural Comparison)

The partners entered into a cross-purchase buy-sell agreement stipulating that the surviving partner would buy out the deceased partner's ownership interest using the insurance proceeds. The IULs were designed with growth riders so death benefit values kept pace with business growth, ensuring coverage was adequate over time without renegotiating.

### *Sidebar: Cross-Purchase vs. Special-Purpose LLC*

Option	Key Benefits	Potential Drawbacks
<b>Cross-Purchase (Chosen)</b>	<ul style="list-style-type: none"><li>• Basis step-up for surviving owner</li><li>• Keeps insurance outside company balance sheet</li><li>• Simple for two equal owners</li></ul>	<ul style="list-style-type: none"><li>• Requires separate policy per owner</li><li>• Less flexible if new owners are added</li></ul>
<b>Special-Purpose LLC (Alternative)</b>	<ul style="list-style-type: none"><li>• Centralized policy ownership</li><li>• Simplifies collateral/financing arrangements</li><li>• Scales well with multiple owners</li></ul>	<ul style="list-style-type: none"><li>• No basis step-up (entity redemption)</li><li>• Adds new entity compliance</li><li>• Must avoid transfer-for-value issues</li></ul>

Recommendation: Because there are only two owners and the policies are already owned by SLATs, the cross-purchase structure provides superior basis step-up, keeps insurance



fully outside the estate, and aligns well with the premium-finance strategy. An SPLLC could be considered in the future if additional partners are added.

#### 4. Premium Financing via MSO and Bank Loans

Rather than funding all premiums from personal cash flow, the MSOs became the borrower on a premium-financing bank facility:

- **Loan Flow:** The bank paid premiums directly to the carrier under a collateral assignment of policy values.
- **Internal Loans:** The MSO simultaneously extended a mirror loan to the SLAT, documented with promissory notes under the loan-regime split-dollar rules (Treas. Reg. § 1.7872-15).
- **Collateral & Guarantees:** Policies' cash values and death benefits were pledged as collateral, with limited personal guarantees as required by the lender.
- **Capital Efficiency:** This approach allowed ~85% of premiums to be funded by bank dollars, with interest serviced by MSO pre-tax earnings — leaving only a small after-tax outlay for the owners.

#### Implementation Timeline and Policy Funding Analysis

The execution of the plan occurred over several years, aligning with the firm's growth trajectory and the clients' evolving needs. Table 1 below outlines the timeline from 2019 through 2025, highlighting the firm's financial growth, the tax deferral achieved via the MSO, and key planning milestones:

Year	Net Income (approx.)	Business Valuation (est.)	Income Shifted to MSO (tax-deferred) / Milestones
<b>2019</b>	\$5 million	\$20 million	MSO structure implemented; Policy 1 issued (non-financed initial premium).
<b>2020</b>	\$10+ million	\$40 million	Policy 2 issued with bank financing (full premium finance initiated).
<b>2021–23</b>	~\$12 million (avg)	\$60–70 million	Ongoing premium financing and policy funding; strategy optimization amid growth.



<b>2024</b>	\$17 million	\$80 million	Partner exit event: buy-sell triggered (policy value accessed via loan for buyout).
<b>2025</b>	\$20 million	\$100 million	MSO and bank loans fully repaid; policies become self-sustaining.

By 2025, roughly \$15–16 million of pre-tax income had been redirected into the MSOs, corresponding to approximately \$4 million in cumulative taxes that were deferred or saved. These retained funds were instead used to service loan interest and build cash value. This allowed the policies to repay all outstanding bank loans by year 6, leaving over \$1 million of net liquidity inside the policies post-payoff.

### Policy Funding & Loan Mechanics

In the initial phase (2019), the first policy's \$250,000 premium was paid directly by the client (via MSO or a trust contribution). Starting in 2020, premiums for both policies were fully financed through a premium-financing bank facility.

Year	Bank Loan Interest (avg)	Interest Paid (MSO → Bank)	Policy 1 Premium	Policy 2 Premium	Total Premiums Financed	Loan Balance (End of Year)
<b>2019</b>	– (no loan)	–	\$250,000 (paid direct)	–	\$250,000	\$0
<b>2020</b>	2.5%	\$6,170	\$250,000	–	\$250,000	\$250,000
<b>2021</b>	2.5%	\$32,119	\$250,000	\$771,867	\$1,021,867	\$1,271,867
<b>2022</b>	2.5%	\$58,151	\$250,000	\$771,867	\$1,021,867	\$2,293,734
<b>2023</b>	5.8%	\$193,000	\$250,000	\$771,867	\$1,021,867	\$3,315,601
<b>2024</b>	5.8%	\$224,000	\$250,000	\$771,867	\$1,021,867	\$3,837,468
<b>2025</b>	5.8% (partial)	\$87,000	\$250,000 (paid direct)	\$771,867 (via policy loan)	\$1,021,867	\$0 (loan repaid)

**Key Point:** In 2025, the cumulative loan balance ( $\approx$  \$3.84M) was completely repaid using policy cash value — leaving over \$1M of net liquidity in the policies. At this point, total death benefit stood at \$24.5M and case value at \$4.9M, making the strategy fully self-sustaining.



### Split-Dollar Loan Regime Compliance & Exit Strategy

A critical aspect of this design was using a split-dollar life insurance arrangement under the loan regime to facilitate premium financing in a tax-efficient manner.

- **Loan Regime Compliance:** Each MSO premium payment to the SLAT was structured as a formal loan, documented with promissory notes at an interest rate benchmarked to the prevailing IRS Applicable Federal Rate (AFR) at the time of plan initiation, ensuring no imputed gifts under Treas. Reg. § 1.7872-15.
- **No Gift Tax Exposure:** Because the SLATs had a bona fide repayment obligation, no premium dollars were treated as gifts. This preserved the clients' lifetime gift tax exemptions.
- **Interest Accrual & Recognition:** Interest accrued annually and was booked as MSO income, taxed at the 21% corporate rate — avoiding higher personal tax treatment.
- **Estate Inclusion Avoidance:** From day one, SLAT ownership kept all policy cash value and death benefits outside the partners' taxable estates, avoiding an estimated \$10.96M in future estate taxes.

### Loan Repayment and Strategy Termination

In 2025, once cash value accumulation was sufficient, the split-dollar notes were repaid in full from the policies' cash value. This allowed:

- Full repayment of the MSO's bank loan
- Termination of the split-dollar arrangement with no forgiveness-of-debt issues
- Retention of over \$1M of policy liquidity and \$24.5M death benefit, fully debt-free

This clean exit positioned the plan for long-term sustainability, with policies now self-funding and projected to deliver \$27.4M by age 100–120 — entirely outside the taxable estate.

### Tax and Estate Planning Implications

The combined MSO and premium-financing strategy delivered major advantages across multiple areas:

- **Income Tax Deferral & Rate Arbitrage:** About \$15–16M of profit was captured in the MSO from 2019–2025, lowering tax exposure from ~34% to 21% and deferring ~\$4M of personal tax liability.
- **Gift Tax Avoidance:** Because premium advances were structured as bona fide loans (not gifts), over \$5.6M of funding did not consume lifetime gift exemption.
- **Estate Tax Savings:** With \$27.4M of death benefit outside the estate, approximately



\$10.96M of future estate tax liability was avoided.

- **Liquidity & Continuity:** At bank exit, the policies provided over \$1M of immediate cash value liquidity plus \$24.5M of death benefit — fully debt-free and available to fund buy-sell obligations and estate settlement.

### Comparative Scenario Analysis: MSO Plan vs. Personal Funding

Metric (2019–25)	With MSO Strategy	Without MSO (Personal Funding)
<b>MSO-Funded Premiums (pre-tax \$)</b>	\$1,600,000 (funded with tax-deferred earnings inside MSO)	\$0
<b>Personally Funded Premiums &amp; Interest</b>	\$272,307	\$1,872,307
<b>Gross Income Required</b>	≈ \$2.43M*	≈ \$2.84M
<b>Total Taxes Paid</b>	≈ \$553,460	≈ \$965,886
<b>Estate Tax Avoided</b>	≈ \$10.96M	\$0
<b>Net Legacy to Heirs</b>	\$27.4M (tax-free)	≈ \$16.4M (after estate tax)

*\* Most of the \$2.43M was not new gross income the owners had to earn personally — it was pre-tax cash retained in the MSO that would otherwise have been distributed and taxed. This highlights the power of deferral, not just rate arbitrage.*

**Key Insight:** The MSO structure reduced personal cash outlay by ~85% and saved more than \$400K in taxes during the funding period. This projected to produce a 1 : 100.6 leverage ratio — every \$1 of personal capital created over \$100 of tax-free benefit for heirs. Based on current assumptions, the strategy is projected to deliver these results and is reviewed quarterly with the client's CPA, Guardian, and financing partners.

The MSO was implemented not only for tax efficiency but primarily to create liability segregation, streamline HR and payroll, and improve operational efficiency. Tax benefits are a secondary but important outcome of this business-driven design. This strategy is generally most appropriate for businesses with \$5M+ annual profit and meaningful estate tax exposure. The plan was stress-tested with lower crediting rates and higher financing costs to ensure it remains viable under conservative conditions. Guardian Tax Consultants, the client's CPA, and financing partners review results quarterly to ensure performance and compliance.

### Addressing Common Questions



We often hear these questions from CPAs, attorneys, and business owners when discussing this type of planning. Here's how we approach them:

**1. This Sounds “Too Good to Be True” — Is It?**

The results are powerful because they combine three legitimate levers — tax deferral, bank financing arranged through strategic partners, and permanent insurance — not because of hidden arbitrage. We encourage independent CPA or legal review so clients feel confident moving forward.

**2. Is This Too Complex to Maintain?**

GTC coordinates quarterly with the client's CPA and financing partners to update AFR rates, review balances, and keep records current. This ongoing service may reduce administrative burden and help keep the strategy aligned with IRS guidance.

**3. Does This Tie Up Business Cash Flow?**

The strategy uses retained pre-tax earnings, which may be more efficient than distributing and paying full personal tax. Policy cash value remains available for future access, preserving liquidity.

**4. What If Policy Performance or Rates Change?**

We model scenarios at multiple crediting and interest rate assumptions. The plan is designed to be debt-free within several years even under conservative projections. GTC does not provide premium financing directly — we coordinate with trusted strategic partners and encourage quarterly reviews with the client's CPA and lender to adjust if needed.

**5. Could the IRS Pull This Back Into the Estate?**

Section 2036 and 2042 inclusion is a common concern. Using a properly drafted SLAT and trustee process, we believe the structure may keep the death benefit outside the taxable estate, though ongoing legal review is recommended.

**6. Is There Gift Tax Risk from the Split-Dollar Arrangement?**

When using loan-regime split-dollar, we believe the funding may be treated as a bona fide loan — provided AFR interest is used and repayment is expected. We encourage annual interest reporting and periodic review to support that treatment.

**7. Could the IRS Reclassify MSO Profit as W-2 Compensation?**

The IRS may examine owner salaries. We work with each client's CPA to ensure compensation is within industry norms and only excess profit flows to the MSO. This approach may reduce reclassification or payroll tax risk.

**8. Are MSO Management Fees Deductible?**

We believe management fees may be deductible if structured to be ordinary, necessary, and



reasonable under IRC §162. Our process benchmarks fees to market data, creates clear service agreements, and reviews allocations annually. This gives CPAs and owners confidence that the approach may stand up if reviewed.

#### **9. Who is this strategy best suited for?**

We believe this approach is most appropriate for closely held businesses with \$5M+ in annual profits, significant retained earnings, and potential estate tax exposure.

All projections assume current interest rate environments, policy crediting assumptions, and loan terms. Periodic review is required to adjust for changes.

#### **Disclosures**

This case study is based on an actual engagement and reflects real planning decisions, funding flows, and results observed through the first six years of the strategy. It is provided for educational purposes only to illustrate how tax planning, entity structuring, and insurance strategies may be coordinated for closely held business owners.

Results are not predictive of future outcomes. Policy performance depends on credited interest rates, charges, and funding consistency, which may change over time. Premium financing terms and availability are subject to bank underwriting and interest rate conditions that may fluctuate.

Guardian Tax Consultants ("GTC") provides tax strategy, entity planning, and coordination of advanced planning strategies with clients and their professional advisors. GTC does not provide life insurance or bank financing products directly. When premium financing is used, we coordinate with trusted strategic partners selected by the client and their advisory team.

Clients should engage qualified estate planning counsel and consider independent legal review to confirm that trust documents and business agreements meet their planning objectives.

Results are based on current assumptions for crediting rates and financing terms; actual results may vary.

The MSO provided real services such as HR, payroll, and compliance support, and management fees were benchmarked to fair market value studies.

Coverage levels are reviewed quarterly to ensure alignment with business valuation and buy-sell obligations.

Collateral sufficiency and personal guarantees were monitored quarterly to maintain lender compliance and minimize exposure.



Trustees participated in annual and quarterly reviews to confirm policy ownership and maintain estate exclusion compliance.

Owners considered alternative uses of capital and determined this strategy best met succession and estate liquidity objectives while delivering a competitive after-tax ROI.