The Benefits of Strategic Tax Planning

Real world examples show how two companies overcame challenges and achieved results with this service.

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Strategic Tax Planning

Oil and Gas Industry Service Provider

Situation:

- The client was a regional company in the oil and gas industry who provided equipment rental services, oil field inspection services, and oil field equipment repair services.
- The company had grown from 20 million in annual sales revenue to 70 million in a three-year period, with profit levels between 10 and 1 5 percent.
- The company was owned by 2 individual shareholders who were both active in the business.
- The company was structured as a single S corporation, and had not done any tax planning in the past.

Challenges:

- Given the rapid growth the company had experienced, they faced an enormous tax problem.
- Given the fact that they hadn't done any tax planning in the past, they were not structured to minimize the tax consequences of this rapid growth.
- The client's fixed assets, which were $5 million in value, were all held in the S corporation, leaving them entirely exposed to potential judgment creditors of the business.
- One of the shareholders had not implemented an estate plan and was leaving the country soon for an extended trip, leaving his estate exposed if something were to happen to him on the trip.

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Actions:

- The strategic tax plan offered strategies for the client to address their increased profit levels and reduce the overall tax that was paid, including recommendations on employee benefits.
- The plan also recommended a corporate structure that would allow them to protect all of their fixed assets; thereby insulating them from liability exposure. This structure consisted of four additional entities: one which was set up to hold the real estate; one which was set up to hold the other fixed assets (equipment, etc.); and two for tax minimization.
- Furthur recommendations included a comprehensive estate plan for the shareholder which would allow him to significantly reduce his estate tax and protect his estate assets when they transferred to the next generation.
- Although the shareholders did not want to transfer ownership in the short term, the plan made recommendations on future succession planning that would allow them to minimize transfer tax obligations should a transaction occur.

Results:

- The tax minimization strategies saved the client over $400,000 in taxes in the first year, and over $2M in the first 5 years.
- The new corporate structure was implemented properly, thereby protecting the assets of the business.
- The results included working diligently with the shareholder's estate planning attorney to ensure that his estate plan was in place prior to his departure on vacation.

Midwestern Tool & Die Manufacturer

Situation:

- The client was a machine shop in the Midwest who specialized in manufacturing tools, dies, and fixtures primarily in the automobile and trucking industries. They provided CNC vertical milling, sheet metal stamping, and wire electrical discharge machining ("EDM").
- The company had been in business for over 30 years and had grown to be one of the leading tool shops in their geographical region for their industry, doing over $4 million in annual sales with 10 percent profits.
- The founder of the company, who was reaching retirement, had brought on his two sons to manage much of the day-to-day activity.
- The father and the two sons each had ownership in the primary operating company, which was structured as a C corporation.
- The family also had an S corporation which was set up solely for their EDM business, but had disproportionate ownership to the C corporation.

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Challenges:

- The company was in a period of transition, with the founder wanting to reduce his role in the company and transfer all of the managerial responsibility to his sons, but still maintain control of the corporations.
- The clients had not been treating each of their two entities as legally separate entities, thereby exposing both entities (and potentially their personal assets) to liability in the event of a lawsuit.
- The real estate that the company operated on, which included a 20,000-square-foot facility, was legally owned by the founder personally. This exposed the founder's personal assets to any liability associated with the property.
- Given the founder's desire to exit the business, he had not implemented any advanced retirement plan which would allow him to take money out of the business efficiently prior to his retirement.
- The clients had not implemented any tax strategies and were paying an effective tax rate over 40%.

Strategic Tax Planning

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Actions:

- The strategic plan outlined a corporate structure which combined the two operating companies under one parent company (S corporation) and recommended the creation of an additional limited liability company to own the real estate that was held in the founder's personal name.
- The plan also suggested a retirement plan which would allow the founder to save significant funds in a tax-friendly manner prior to his departure from the company.
- Further recommendations included a succession plan which allowed the founder to transfer most of his ownership to his sons tax-free, while still maintaining control of the business.
- The plan recommended multiple tax strategies to reduce the client's overall tax burden.
- As part of the engagement, the manufacturere was assisted with proper implementation of the strategies.

Results:

- By implementing our recommended corporate structure, the client was able to ensure that their business and personal assets were protected from liability exposure.
- Given the retirement and succession plans that were implemented, the founder was able to set an exact date for his departure from the company, with the peace of mind that the business was being transferred as efficiently as possible, no excess taxes were being paid, his retirement was now fully funded, and he still maintained control of the business.
- The client saved over $45,000 in income taxes in the first year, and over $250,000 in the first 5 years.