.

Tax Insights & Pricing for XYZ Co. & various entities

SAMPLE from a real client in 2024

1) **Insights beyond recommendations from Tax Strategy Group's recommendations:**
   a. Taxpayers with average gross receipts of less than $29M can elect the cash basis and/or to expense inventory. Changing these accounting methods for the year ended 10/31/23 would have reduced taxable income by $1.1M and **deferred $275K of income tax**

   b. Making an S-election will shield future income from double taxation but will not shield the $5M of existing retained earnings from additional taxation. Dividends were taxed at ordinary rates until 1985. In 2012 there was serious discussion about returning ordinary income tax rates to dividends. Given present uncertainty and big budget deficits it is likely that dividends could once again be taxed at the highest marginal rate of 39.6% instead of 20%. **$980K of tax savings** if dividends are paid before future tax increases. Asset protection would be increased by removing those funds from the reach of potential creditors.

   c. If an S-election is made, then the built-in gains tax could be triggered by the disposition within 5 years of any asset (including inventory and zero basis receivables) that were on hand at the time the S election became effective. **We recommend remaining an accrual basis taxpayer until after the S-election. Additionally, additional planning may be needed to minimize exposure to built-in gains tax.**

   d. Beginning in 2026 the 20% pass-through deduction goes away. This will bring parity to S-Corp and C-Corp overall tax rates. Further, the corporate NC tax will phase out by 2030. Consider remaining a C-Corp for the time being and avoiding double taxation with other tax planning strategies. **In the end, we agreed with TAVIS that an S-election should be made.**

   e. Consider adjusting the organizational structure so that certain LLCs are owned directly by Owner 1, Owner 2, and Owner 3 instead of by Current HoldCo.
      i. Current HoldCo: a C-Corp required to file a tax return anyway and you would not want to be forced to offer the same fringe benefits to all employees
      ii. Two Leasing Companies: gain would be recognized and taxed at 21% when property is distributed. The FMV of the property would then be depreciated by the LLC providing a deduction at 37% to the owners. **$480K tax savings** on $3M of property. The tax costs are upfront, but Section 179 and bonus depreciation can accelerate the tax benefit. **We abandoned this recommendation. Tax savings not available after S-election and sales tax would make cost-prohibitive.**
      iii. XYZ Real Estate (LLC): gain would be recognized and taxed at 21% when property is distributed. The FMV of the property would then be depreciated by the LLC providing a deduction at 37% to the owners. **$320K tax savings** on $2M of property. The tax costs are upfront, but a cost segregation study can be conducted to accelerate the tax benefit. Additionally, heirs would get a step up in basis in the real estate instead of in the shares. Finally, owners may want to retain real estate with a long-term lease as part of a potential future sale.

   f. We agree that a captive insurance company is a great way to avoid double taxation, reduce your tax rate, and build wealth. We suggest that additional risks such as cyber, business interruption, etc. be covered to maximize the amount of annual income that can be deferred and eventually taxed at a lower rate. $10M paid in dividends instead of ordinary income produces **$1.7M** in tax savings.

   g. The estate and gift tax basic exclusion amount will decrease from $13M to $7M at the end of 2025. We suggest that gifts of stock to grantor trusts be made prior that date in order to maximize the amount that can pass free of estate tax. $12M additional can bypass your estate saving up to **$4.8M in estate taxes**.

h. HoldCo NC taxable income appears to be understated by $622K for the year ended 10/31/22 and by $57K for the year ended 10/31/23 resulting in underreporting of tax $16K and $1,500 respectively, consider amending

i. Based on our discussion on X/XX/2024, our updated recommendations include:

i. Pay dividends to existing owners
ii. Buyout equity of Owner 2 & Owner 3 by 10/31/2024 (you can still provide long-term incentives)
iii. Pay an additional dividend to Owner 1 and Owner 4
iv. By 1/1/2025 move the Holdco from C-Corp to S-Corp
v. Have BGW do a 2-month C-Corp filing to get it from a fiscal year to calendar year
vi. Establish a NEW real estate LLC with Owner 1 & Owner 4 having 100% ownership (NOTE: there's a ton of work BGW must do to help get new corporate structuring set up and priced properly to minimize tax burden, maximize benefit to Owner 1 & Owner 4, and provide you the defensibility required to keep you out of trouble.)
vii. Move the management company C-Corp to the structure Gary illustrated & sent via email on XX/XX/2024

2) Pricing:

A. NEW STRUCTURE starting 1/1/2025 & beyond: Tax planning & prep: 2025 business returns for: 1) NEW HoldCo (S-Corp), 2) SUB Co. 1 Inc. (QSSS), 3) SUB Co. 2, Inc. (QSSS), 3) XYZ Real Estate (LLC), (4 Fed returns (1 HoldCo + 3 Real Estate returns) plus 1 state return for each—NOTE: add $500/state for each additional state required); 2025 personal tax returns for Owner 1 & Owner 4 (Fed plus 1 state), full access to the BGW; personal tax planning and returns for Owner 1 & Owner 4—including Schedule C (Fed plus 1 state); plus full access to the BGW Vault, our Proven Process strategic planning/meeting cadence that includes calls, emails & meetings. Total annual pricing: $36,204 ($3,017/mo. x 12 months.)

NOTES: 1) If books aren't clean, bookkeeping cleanup is needed, &/or bookkeeping support is needed, these additional fees will be estimated based on scope. 2) If multiple states are required to be filed, add $500/state. 3) If Personal Property Tax Listings are required in multiple states/counties, add $750/county.