HIGH POINTS

For Business Owners: What You Need To Know... *Now.*

Strategies to Reduce Income and Estate Tax

"In this world nothing can be said to be certain, except death and taxes." - Benjamin Franklin

Our teams work with a large number of manufacturing and engineering company to help the shareholders and the company to reduce their Federal income tax burden. Here is a list of techniques we employ at corporate level to reduce taxes and protect income:

1. Cross tested qualified plans
2. Captive insurance company
3. Restricted property trust
4. Captive insurance company combined with stop loss coverage

CASE STUDY

The ideal Exit Plan (one that provides the business exit you desire) includes a strategy to help you preserve your hard-earned wealth from unnecessary taxation when it is transferred to your family. But to preserve wealth, business owners must take steps before they actually have it. In other words, to realize all of the potential benefits of various wealth preservation techniques, owners must make plans before they convert the value of their businesses to cash.

The foundation for wealth preservation planning is found in the answers to two of the questions you answered in Step One of this Exit Planning process:

How much wealth do you want when you exit your company? And, for parents, the follow-up question: How much wealth do you want your children to have?
How long before you leave your company?
Using your answers as guideposts, you (and your advisors) can then choose the planning technique that will best preserve your wealth, provide for your family and minimize your tax bill. Let's look at how one fictional owner used wealth preservation techniques to do exactly that.

George recognized that he'd waited too long to begin gifting part of his company to his kids. A week before, George's CPA had told him that, based on the company's pre-tax cash flow of $2 million per year, his company could be worth as much as $12 million to a third party.

After recovering from that shock, George realized first that he didn't need nearly that much cash to retire in style and second, that if he didn't transfer at least half the value of his business before a sale, his family could be looking at millions in gift or estate taxes!

I. Cross tested retirement plans

We are not certain if you practice maintains a profit sharing or 401(k) plan. Recent changes to the tax code have created a strategy which if implemented correctly will allow medical practices to put together qualified plans where benefits can be skewed in favor of ownership and itemize contributions to non-physicians. The technique is called cross testing.

This is accomplished by placing employees into different groups, for example two classifications can be shareholders and non-shareholders. It may be even possible to break groups down between senior and junior shareholders. Next the actuary on our team will run various test to determine if the benefit levels (not contributions) fit within the parameters prescribed by the internal revenue service. From our experience most medical practice demographics fit well within this strategy.

In one situation, a medical practice of ours with 3 doctors and 10 staff we were able to get 97% of contributions to doctors. If you provide us a census for your group and goals we can run various "what if " studies at no cost to you to see if this technique is viable for your group.

II. Captive Insurance Company

A captive insurance company is a special purpose insurance company we form and which is owned by same shareholders as operating company. Think of it as your mini GEICO. The operating company or companies makes a tax deductible insurance premium payment to the captive insurance company, thus reducing profit at your operating company dollar for dollar. These premiums then create reserves to insure against the risks the captive underwrites for the practice. These typically include in a medical practice, loss of licenses, regulatory changes, data breaches, directors liability insurance. Currently the practice is more than likely self=insuring these risks.

If such a risk is covered by insurance , practice gets a deduction and if no claims are paid , the profit from underwriting the insurance coverages are returned to the owners of captive and not to unrelated insurance company.
The premiums paid to captive and subsequent underwriting profits are not taxed because code section 831(b) provides only earning on profit are taxed. Finally, another large tax benefit is when captive is liquidated or dividends are distributed from captive they are taxed at long term capital gains rates and not ordinary income. This has a tax arbitrage benefit to shareholders of over 25%.

I sent you a couple articles on this topic. The tax results of a captive are superior to that of a qualified plan, qualified dividend treatment on distributions (taxed at long term capital gains rates). Not subject to any coverage and discrimination rules like qualified plans.

III. Restricted Property Trust

As we discussed before, I believe this is one of the most unique and well thought out strategies I have seen in my 30 years of advising the affluent.

This strategy makes more sense than ever because of the chaos in Washington increased tax rates, surtax of 3.9 percent and dividends taxed at ordinary income tax rates. Doctors in Pa can pay over 47% in all taxes

In summary the RPT is a welfare benefit plan which allows the employer to select the people to participate and take a 100 percent deduction for contributions to the RPT. The participant will recognize about 30 percent of each contribution as income for each year the trust is in place. A 70 percent benefit to participant.

Because of increased market volatility clients are looking for stable and conservative returns. The funding of program is through a At rated insurance carrier using their whole life product. The company has always` paid a dividend for over 165 years and offers a guaranteed 4 percent rate of return. The current dividend rate is 6.35 percent in this low interest world.

The program is tailored to companies that can afford to contribute 50, 000 dollars or more for at least 5 years. The program is being utilized by large banks such as Key Bank , PNC Bank and large regional CPA firms.

Finally this program also allows doctors who participate to receive long term care benefits in a tax advantaged manner, plus doctors who currently have life insurance should consider participating as they can purchase similar whole life insurance on a partially tax deductible basis.

IV. Stop loss coverage combined with captive insurance company

I have previously forwarded you material on this strategy. In its simplest terms because of the number of lives your company covers this strategy will customize a health care program for the group. Currently the program you maintain is not customize to your practice. We have found that we can put together a program to save between 5 and 20% in premium costs. Again, we would not implement a program if we had to change doctors whom employee use.

If you provide me with the number of lives covered, breakdown of coverages (single, family...) total premiums paid, last bill and a summary of the plan, my actuaries can give us a good idea if we can customize a program for practice. Because you do not cover more than 250 lives generally speaking will not provide us information on your usage history.

CONTACT US

The Universal Truth is that every owner will exit their business.

The Question is on whose terms: Circumstance, Others,… or *Yours*?

We work with business owners who want to take action to grow and protect the value of their company:

- Exit Planning
- Tax Reduction
- Risk Management
- Investment in People

Contact Us for a 30-60 Minute Assessment and Consultation.
We listen,
We answers your questions.
ExitPlanning@Legacyhp.net

Ask about our Exit Planning Workbook for Business Owners.

Request a dynamic and professional Expert to direct a **seminar or workshop** for your business leaders in your community.
Experts@legacyhp.net

For additional resources -- White Papers, Tip Sheets, Newsletters, overviews of specific strategies, speakers, and other research materials, please contact us and visit our website.
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