

A TAX-EFFICIENT APPROACH TO OPERATIONS

A Management Service Organization (MSO) is a business entity that provides various essential services to an individual or Company, such as Administrative Services, Accounting, IT, Human Resources, Staffing, Marketing, and Sales. As result of transferring these services to an MSO, business owners may shift income from individual tax rates (36%) to corporate tax rates (21%), thereby achieving significant current income tax deferrals. The MSO structure can also provide strong asset protection by separating the assets of the MSO from the legal liabilities of the individual business owner or the operating company.

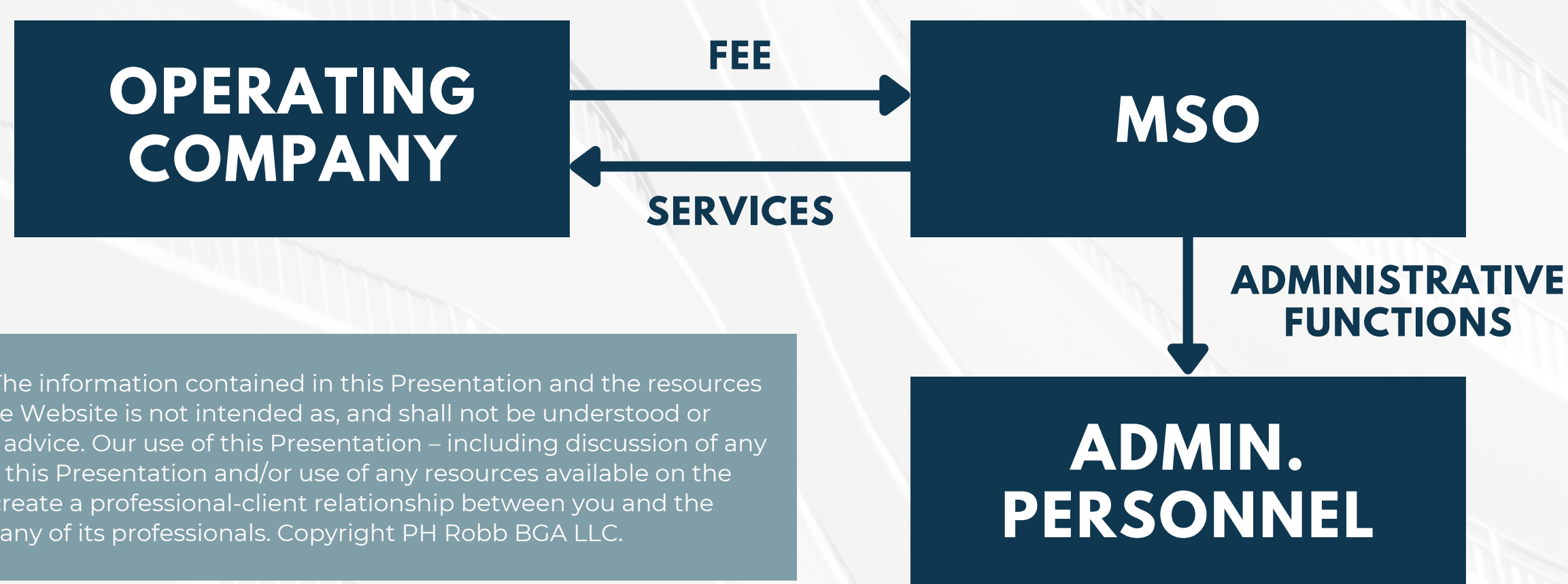
MSOs WORK WELL FOR CLIENTS WHO:

- *Earn between \$2M-\$20M annually*
- *Experience large and infrequent earnings, such as settlements, brokers fees, contract fees, etc.*
- *Face heightened risk of litigation due to their industry (healthcare, law, development, etc.)*
- *Have significant overhead expenses for Administrative Services*
- *Experience high federal and state marginal individual income tax rates*

HOW MSOs WORK:

1. *Client has or creates an MSO, incorporated as a C-corporation.*
2. *Client transfers all Administrative Services to the MSO.*
3. *Operating Company executes a Services Agreement with the MSO.*
4. *Advisors perform reasonable compensation study to calculate the value of the management services.*
5. *Operating Company pays the MSO the annual management fee for services provided.*

-SEE CASE STUDY ON NEXT PAGE-

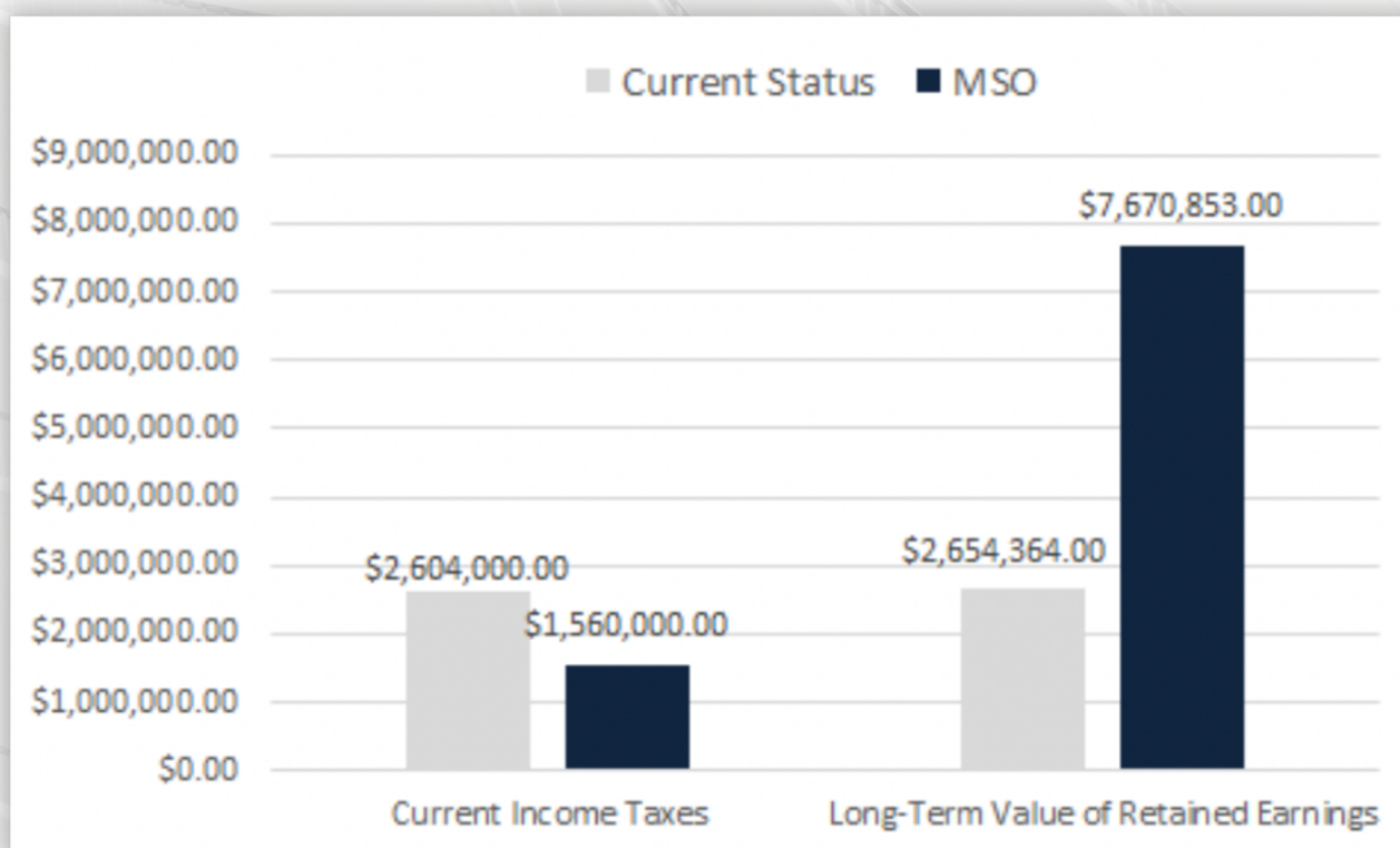


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CASE STUDY: PERSONAL INJURY LAW FIRM

Justin is the founder and top partner at a law firm that specializes in personal injury cases. The firm has significant administrative services as part of their operations, including Human Resources, Accounting, IT, and Marketing. The firm is currently a professional partnership, where earnings pass through to each partner for income taxes. Additionally, the firm frequently experiences large earnings events when settlements are won. To improve administrative functions and to separate liability from the professional partnership, the firm can create a Management Service Organization (MSO) to handle all non-legal administrative functions of the firm. The firm recently won a \$6M settlement, and therefore has significant earnings to fund current and future management fees to the MSO. Due to the difference between individual and corporate tax rates, Justin and the other partners may reduce current income taxes by as much as \$1M. Additionally, if the MSO has additional accumulated earnings, there may be an opportunity to fund substantial assets within the MSO to support future operations and continue to build enterprise value.



WHAT DETERMINES THE TAX BENEFITS?

The benefits of an MSO are a function of many factors, including:

- *Individual income tax rates*
- *Corporate income tax rates*
- *Amount and value of services reasonably being provided by the MSO*
- *Use of accumulated earnings within the MSO (dividends, reinvestment, etc.)*



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