

Multiple Locations or Entities? Great Tax Strategy

If you own multiple operating locations, businesses or entities, such as a group of restaurants, a management company formed as a regular "C" corporation could save you significant tax dollars. The C-Corp must have a valid business purpose and proper management services agreements, which may then result in up to \$50,000 of taxable income subject to a 15% corporate tax rate instead of a 35% individual tax rate. Many of our McDonald's Owner/Operator clients have successfully put this strategy in place.

When you set up a management "C" Corporation, the company could take advantage of additional tax saving opportunities with a separate election to expense up to \$250,000 of asset additions in 2008, the ability to expense long-term care insurance premiums and a possible exclusion for 70% of dividends received.

What does it look like? The first \$50,000 of taxable income of a regular "C" corporation is taxed at a 15% tax rate compared to a 35% top tax bracket at the individual level. If there are subsequent dividend distributions, they would be taxed at a 15% tax rate under current law. (Now here is where we really get technical...) Therefore, there is a reduction of up to 20% (\$10,000) of which 5% (\$2,500) is permanent and 15% (\$7,500) is deferred. The deferred portion may become permanent under certain circumstances.

To achieve the above results, the corporation must have a valid business purpose, e.g., to serve as the centralized source of management expertise for a group of operating locations, businesses or entities. The corporation could employ the corporate officers, administrative, marketing and other general support personnel. Centralizing management, administrative and common support functions should constitute a valid business purpose.

The management corporation enters into a legal contract with the operating entities to provide management and support services to the operating entities in exchange for management fees. The fees could be based on a cost plus arrangement with each of the operating entities with the goal to take advantage of the 15% corporate tax rate.

The management corporation also has the opportunity to elect to expense asset additions (Section 179 election) in addition to those of the operating entities. For example, the corporation could acquire computers, office furniture and equipment and certain vehicles (currently over 6,000 pounds gross weight) and elect to expense up to \$250,000 in 2008. The deduction would be reduced if the annual acquisitions exceeded \$800,000. (Limits increased as a result of the Economic Stimulus Act of 2008).

The corporation would also have the opportunity to obtain a tax deduction for long-term care insurance premiums for coverage of selective employees without being subject to the ERISA non-discrimination rules.

The corporation should not be treated as a personal service corporation (PSC) if the corporation is providing management services rather than consulting services. The corporation should be able to accumulate earnings of up to \$250,000 without being subject to the Accumulated Earnings tax. Beyond that level, the corporation should consider electing S corporation status or document a valid business purpose for the accumulated earnings, such as a future business expansion, to avoid paying this tax.

Setting up a management corporation is complicated and should be done only with the advice of experienced professionals. If you would like more information or to discuss how a Management Corporation might apply to your business, please contact Tony Deutsch, Concannon, Miller & Co.'s Shareholder in charge of Tax Services at **610-433-5501** or tdeutsch@concannonmiller.com.