Business Structure Reviews

Creating A Tax Efficient Business Structure

EHTC State and Local Tax Services

INCOME & FRANCHISE TAX

- Tax Minimization Studies
- Business Structure Reviews
- Allocation and Apportionment Planning
- Combined, Consolidated, & Unitary Planning
- Nexus Studies
- Amended State Tax Returns from IRS Audits
- Single Business Tax Training

SALES & USE TAX

- Reverse Audits
- Compliance System Review
- Direct Pay & Compliance Agreements
- Exemption Certificate Documentation
- Industrial Processing / Manufacturing Exemption
- Utility Studies
- Nexus Studies
- Sales & Use Tax Training
- Transportation Company
- Procurement Company

PROPERTY (AD VOLOREM) TAX

- Real Property Tax Reviews
- Personal Property Tax Reviews

TAX AUDIT & APPEALS

- Sales & Use Tax Audit Defense & Appeals
- Income & Franchise Tax Audit Defense & Appeals
- Property Tax Audit Defense & Appeals
- State and Local Tax Litigation Support
- Merger & Acquisition Due Diligence Reviews
- Voluntary Disclosure

BUSINESS INCENTIVE SERVICES

- Business Relocation & Expansion Services
- Tax Credits, Exemptions, & Abatements
- Grants, Financing, & Infrastructure Assistance

How a business enterprise is structured is probably the most important factor in determining the level of state taxation. A tax efficient business structure can save the company taxes and improve the bottom line. Several factors go into the study to determine the most tax efficient structure including, the type of entity, ownership, state of domicile, and the amount and location of assets.

Type of Entity - *It is necessary to review the entire business structure including the type of entities. Different types of entities are subject to various taxes and some types of entities, flow-through entities, for example, may be exempt from certain types of taxes. Effective tax planning strategies often involve the mere changing of the form of the entity. Therefore, it is necessary to identify the business structure by type of entity (C-Corporation, S-Corporation, Partnership, Limited Liability Company).*

Shareholder/Partner/Member - For each of the entities identified in the business structure, it will be necessary to identify all the shareholders/partners/members and their respective ownership percentages. The various state tax statutes include provisions that may mandate or allow the filing of a combined or consolidated return. Entities may be excluded from forced consolidation or combination by selecting a different entity type or by structuring business activities to require a different apportionment method.

State of Commercial Domicile - For each of the entities identified in the business structure, it is necessary to identify the state of organization and more importantly, the state of commercial domicile. Occasionally, a state tax statute will apply a different standard, tax, or calculation of the tax depending on whether the entity is a domestic entity or a foreign entity.

Assets - It is necessary to identify all the tangible and intangible assets owned by each of the entities within the corporate structure. It is necessary to identify the dollar amount of assets and a brief description of the assets included in each of the entities. In state tax planning, the movement of assets from one entity to another entity can often create either favorable or unfavorable tax results.

Examples of Tax Efficient Entities

The following are a few examples of the type of entities used in restructuring business enterprises. These entities are used to shift income where it will escape tax or be taxed at a lower rate. They may not always work for a specific business because there are several other factors that contribute to the tax environment.

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About EHTC

Echelbarger, Himebaugh, Tamm & Co., P.C. (EHTC), a professional corporation was established in 1977 by Dennis M. Echelbarger. Since that time, our Firm has grown to become one of the largest, most successful, local accounting firms in the Greater Grand Rapids, Michigan area, and we are a recognized leader in the business community. Our success is based on building partnering relationships with our customers. We are large enough to serve a wide diversity of customers but small enough to maintain personalized attention.

EHTC's professional team is highly trained to provide technical and consulting services in the areas of accounting, taxes, and strategic planning to nonprofit, profit and service organizations and related entities.

Minimizing your tax liability requires careful, advance planning rather than preparing tax returns as deadlines near. Our tax professionals provide complete tax services and are assisted by our extensive tax library and the latest technology.

We pay careful attention to your unique circumstances such as your current requirements and your plans for the future. We then recommend a plan that best suits your needs while minimizing financial risk.

Intellectual Asset Holding Company – Intellectual assets are transferred into a subsidiary located in a low or no-tax state. The subsidiary then licenses these assets back to the operating company in exchange for a royalty. The operating company deducts the royalty payment thereby reducing its state income tax liability. The Intellectual Asset Holding Company escapes taxation in most states, except those that require unitary or combined filing, because it is domiciled in a state that has no tax or that does not tax income from intellectual property.

Passive Investment Holding Company – Passive investments including stocks and bonds are transferred into a holding company located in a low or no-tax state. The holding company accumulates the dividend and interest income. It may loan it back to the operating company or pass it up in the form of a dividend. Income taxes for the operating company are reduced because the dividend and interest income is not reported on its return. The holding company generally escapes tax altogether because it is domiciled in a state that has no tax or that does not tax income from passive investments.

Employee Leasing Company – In the most common application, the employees of an operating company are terminated and then simultaneously hired by another entity, the employee leasing company. The employees are leased back to the operating company in exchange for a fee. The employee leasing company is the common law employer of the employees. The tax benefits accrue to the employee leasing company taking advantage of deductions and/or credits not available to the operating company. The employee leasing company may also qualify for lower unemployment tax rates.

Mortgage Company – Mortgages secured by real property can be transferred into a separate entity located in a state that does not tax the interest income. The new entity must normally avoid being taxed as a financial institution. The interest income from the mortgage loans accumulates in the mortgage company. It may loan it back to the operating company or pass it up in the form of a dividend. Income taxes for the originating company are reduced because the interest income is not reported on its return. The mortgage company generally escapes tax altogether because it is domiciled in a state that does not tax interest income.

The above income shifting strategies are very complex and difficult to implement. These strategies should not be implemented without the consultation and assistance provided by competent tax advisors, like the tax professionals in the EHTC SALT Group and competent outside legal counsel.