

Don't Ignore IRS Compliance in the Intricacies of Multiple Business Strategies

Navigating the complexities of tax planning and business structuring to safeguard your multi-faceted business strategy from IRS scrutiny can seem like a finely orchestrated chess match. While the maneuvers may be intricate, the rules are unequivocal. It can be tempting for some business owners to try and find ways around the system to maximize their own benefit, but the IRS is wise to many of these strategies, and often the consequences are not worth any potential short term benefit you may find.

Consider the tax tactic of setting up a new C corporation to redistribute income through management fees from the primary company. This strategy, while it may seem clever, has drawn considerable skepticism from the IRS.

The Case of the Missing Details: A Cautionary Tale from Aspro Inc.

A noteworthy case that sheds light on crucial aspects of tax compliance and strategic planning is *Aspro Inc. v. Commissioner* (2021). In this case, Aspro, a sizable and lowa-based \$23 million C corporation working in asphalt paving, tried to reduce its taxable income by paying substantial management fees to its shareholders—two corporations and one individual who also served as the president of the company. Despite the company's profitability over these years, no dividends were issued. Instead, the management fees were aligned with the shareholders' ownership interests and were paid in lump sums at the end of each year. These payments effectively eliminated Aspro's taxable income, drawing IRS attention.

Lessons to Learn from Aspro's Mistakes

There are several key takeaways from this case that are useful for people engaging in multi-business strategies. The first is that documentation is paramount. Every transaction between related parties must be supported by written contracts. Without that paper trail, the IRS isn't likely to buy into your tax-saving strategies.

Then there's the matter of arm's length pricing. This basically means that prices between related entities should be similar to what you'd pay an unrelated third party. The IRS scrutinizes these transactions intensely; a misstep here can turn your strategic tax planning into an expensive lesson in compliance.

Crucially, Aspro fell short in both areas. Not only did they lack a structured processes for setting their fees, they also failed to provide substantial documentation, which didn't sit well with the IRS. Aspro did try to defend their fees during the proceedings. They brought in two expert witnesses to vouch for them. But here's the kicker—the court didn't buy it. Why? Well, those expert testimonies lacked factual basis and relied too

much on subjective opinions. It's a harsh lesson in the importance of engaging credible experts and ensuring their testimonies are rock solid.

When it came down to it, the court had to decide whether Aspro's management fees were reasonable. They looked at factors like the nature of the work performed and prevailing compensation rates in the industry. And guess what? Aspro's fees were deemed excessive, landing them in hot water with the IRS.

Building a Solid Foundation for your Strategy

So, what's the best way to make sure that your own strategy will hold strong against any weakness the IRS will try to find? Well, for starters, meticulous documentation is key. Without it, you're basically playing a game of tax roulette with the IRS. You also need to ensure that your pricing is in line with what you'd pay an unrelated third party. And when it comes to expert testimony, make sure you're bringing in ones with solid credentials whose testimony is based in fact and not their own opinion.

Invoice, Invoice, Invoice

Think of invoices as the mortar of your strategic tower. They hold together the legitimacy of transactions between related entities. Each service provided should be invoiced promptly and paid accordingly. Aspro missed the mark because they didn't have structured processes or documentation for setting their management fees. No written agreements, no cost analysis, and certainly no invoices to speak of. This lack of formal documentation raised red flags, eventually drawing the scrutiny of the IRS.

Be Reasonable

Now, let's talk about reasonableness. Just because a payment can be justified doesn't mean it's reasonable. Aspro's management fees conveniently zeroed out their income, but they failed the reasonableness test. Each fee and payment must fit your business like a glove: necessary, ordinary, and helping your business run smoother.

Expert Opinions

In complex arrangements, having an expert on your side can make all the difference. But Aspro went into battle without a credible one, while the IRS had their own expert lined up. It's a cautionary tale of what can happen when you're not adequately prepared for an IRS audit.

Be Prepared

Surviving an IRS scrutiny requires more than just luck. Aspro learned this the hard way. Unprepared defenses crumble under the IRS's watchful eye. If you're claiming deductions for management fees, be ready with all the documentation: contracts,

invoices, and even third-party comparisons. A multi-business strategy can lead to serious savings when executed correctly, but without proper documentation, they can quickly turn into a nightmare.

Conclusion

In navigating the maze of IRS rules, strategic acumen is essential, but so is meticulous compliance. Every move counts in the great chess game of tax planning. That's why every sound tax plan should include a robust documentation strategy. But it doesn't stop there. Regular check-ins and monitoring are necessary to ensure ongoing compliance. Even well-intentioned business owners may struggle to keep up with the ever-changing tax landscape.

Ultimately, the case of Aspro Inc. serves as a cautionary tale for business owners everywhere. Tax compliance isn't something to be taken lightly. It requires careful planning, meticulous attention to detail, and a solid understanding of IRS guidelines. If you want to ensure that you're creating a multi-business strategy that will generate serious tax savings while standing up to IRS scrutiny, don't hesitate to reach out. It could save you a world of trouble down the line. I'm here to help you at every step along the way.