Building Employee Housing–Tax Planning and Wealth Building

By Pat Tabor – Swan Mountain Consulting Group

If you attended the Conference in Phoenix last December, there was a great interchange at the Idea Exchange for Outfitters/Owners/Managers facilitated by Zeb Smith and myself. While exploring workforce challenges, participants noted difficulties related to securing adequate housing for their seasonal staff. In fact, “workforce housing” was such a common concern during the session that I asked how many attendees were actively constructing (or considering constructing) their own housing options - and *over half* the hands in the room shot up.

So once I heard that, I immediately asked myself, “I wonder how many of these companies know how to structure the projects, ownership, intercompany leases, etc., to ensure that they are maximizing all the legal tax saving opportunities as well as building wealth for the owners?” So I approached AO, and they encouraged me to write an article addressing the ideas one might consider.

For years I have been advocating for my clients to consider the usage of multiple entities to effectuate good asset protection as well as reduce the overall tax burden to the least amount legally possible. If done properly, using multiple entities can accomplish many cool outcomes:

- Shift income recognition to later years
- Defer taxes
- Take deductions for items not typically allowed in other entities legally
- Insolate from liability
- Prevent built-in gains

So where do you start? First of all, any real estate you own should be held in a separate entity than that of operations. Typically, depending on your personal and business tax situation, what state you live in, and your other entity holdings, you will set up an LLC. As you acquire the land and potentially existing building, and later when you make the improvements to adapt to employee housing, consider utilizing cost segregation when you initially set up all the assets associated with the acquisition. Most inexperienced real estate investors simply allocate a purchase price between land and building, which means you will have the longest asset class to depreciate your building (you cannot depreciate land), over 39-year straight-line for commercial property, or a 27.5-year straight line for residential property. But when you segregate costs, you can legally assign value to assets with shorter lives. Taxpayers often hire firms to conduct cost segregation studies, which are designed to classify assets as personal property instead of real estate and thereby qualify the assets for shorter recovery periods and accelerated depreciation deductions. This strategy can be very helpful if you are trying to reduce the overall tax burden by combining potential heavy write-offs from your real estate entity with taxable income from operations.

Next create a lease arrangement with the new LLC such that the operating company pays lease expenses for the employee housing facility. Yet again, this creates an income recognition or sheltering opportunity from the profitable operating company to the real estate entity that will have depreciation and other expenses to shelter the rental income paid to it by the operating company.

Outdoor Recreation Company owners should look to create an ownership entity structure that does the following: Achieves good liability protection, defers taxes, minimizes SE tax and allows all owners to legally deduct a percentage of living expenses including mortgage and meals.

Setting this up properly requires careful planning and consultation with a tax professional, but if done creatively and effectively, there are several legal methods to utilize structure in order to minimize taxes, protect from liability and grow wealth.

Pat Tabor is the founder and Managing Partner of Swan Mountain Consulting Group. The firm specializes in providing high level consulting services to the outdoor recreation industry utilizing consultants that have “been there, done that”. Visit www.swanmountainconsulting.com