



Profit Interest in an LLC

Rod Mauszycki

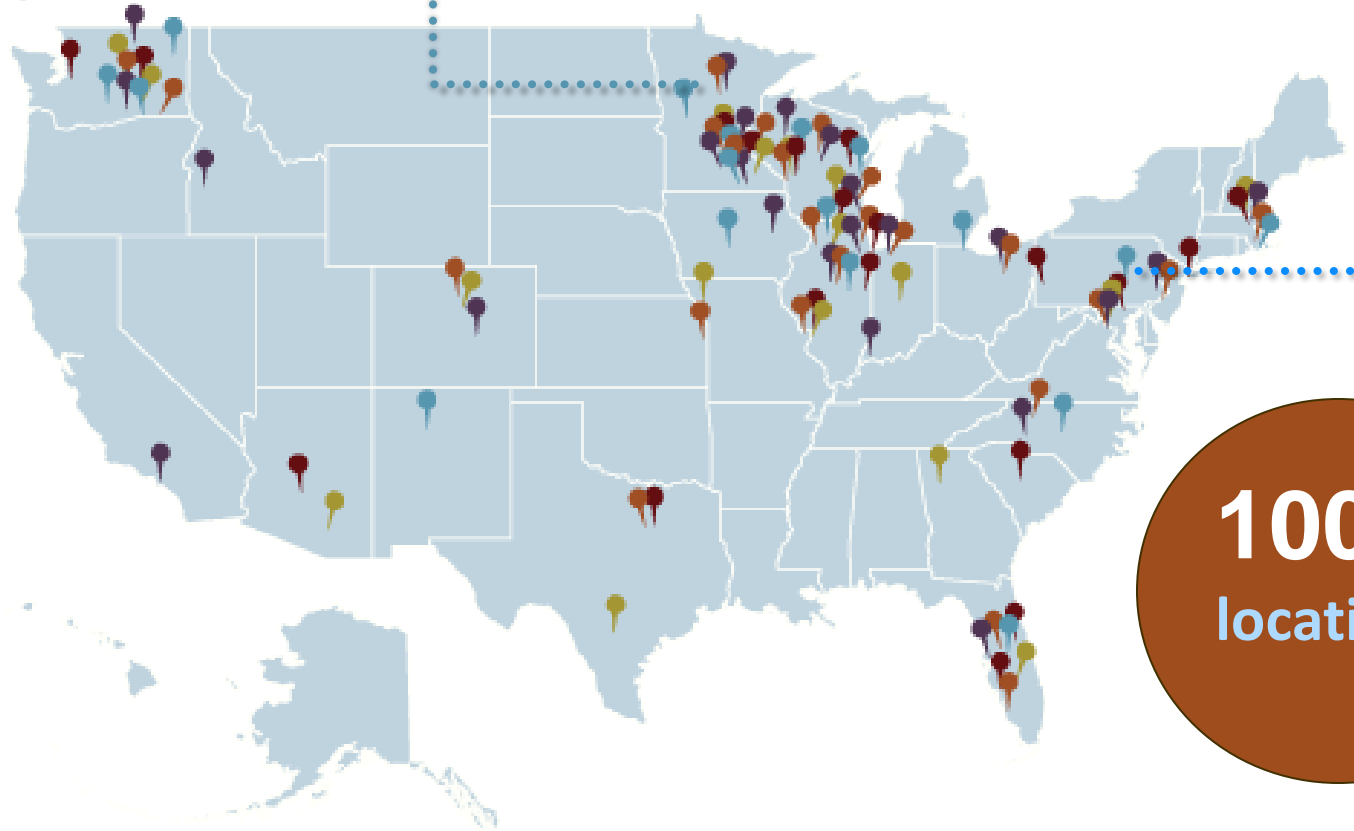
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CLA at a Glance

4,500+

people

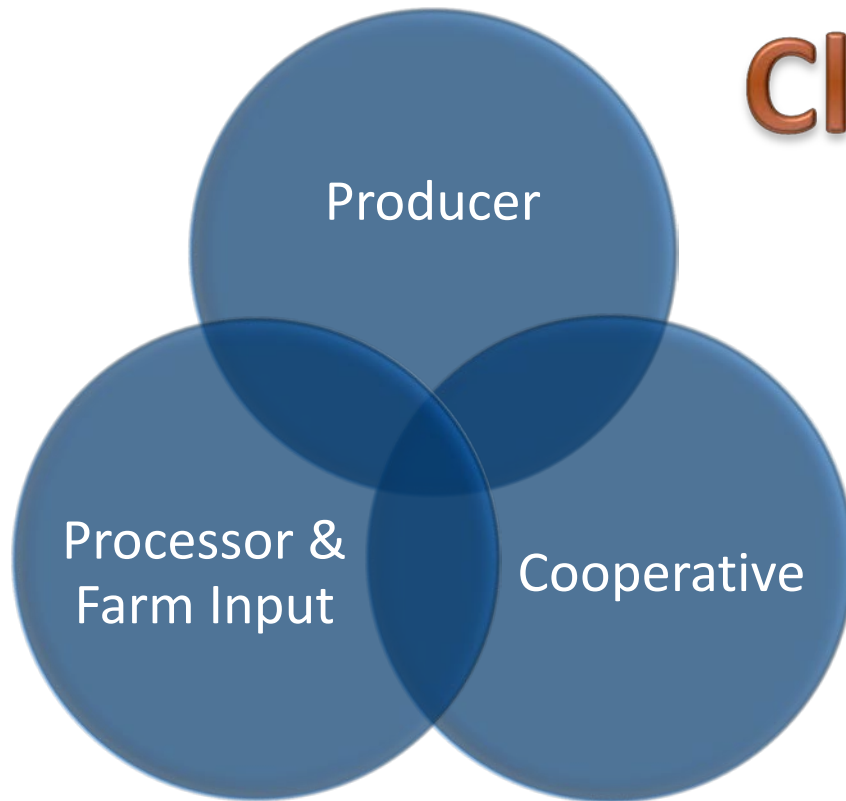


100+
locations



Agriculture is the Heart of our Practice

5000+ Agribusiness Clients



CLA is one of the largest service providers to agribusiness and cooperative organizations in the country

Rod Mauszycki

- Principal, Agribusiness
- Minneapolis, MN
- Holds degrees in:
 - Law
 - Business Taxation
 - Chemical Engineering



Profit Interest

Great way to transfer via “sweat equity”

Son/daughter gets percentage of profits in partnership

Over time, capital account increases

Acquiring a profit interest is not a taxable event



CAUTION!



**Must not
be a sham transaction.**

**Must have
economic substance.**

Can't be for tax avoidance!



Profit Interest

- Example: Frank is Nathan and Eric's father. Frank is winding down his career and wants Nathan and Eric to take over. As Nathan and Eric are key parts of his company, he provides each with a 20% profit interest.
- Assumptions:
 - Value of business: \$1,200,000
 - Profits: \$130,000/year, increase 3% per year
 - Tax distributions only (32% of profits)



Profit Interest Example

Year	Frank	Eric	Nathan	Frank's Capital Interest	Eric's Capital Interest	Nathan's Capital Interest
1	\$1,200,000	\$17,680	\$17,680	97.14%	1.43%	1.43%
2	\$1,200,000	\$18,210	\$18,210	94.36%	2.82%	2.82%
3	\$1,200,000	\$18,757	\$18,757	91.65%	4.17%	4.17%
4	\$1,200,000	\$19,319	\$19,319	89.03%	5.49%	5.49%
5	\$1,200,000	\$19,899	\$19,899	86.47%	6.76%	6.76%
6	\$1,200,000	\$20,496	\$20,496	83.99%	8.00%	8.00%
7	\$1,200,000	\$21,111	\$21,111	81.58%	9.21%	9.21%
8	\$1,200,000	\$21,744	\$21,744	79.24%	10.38%	10.38%
9	\$1,200,000	\$22,396	\$22,396	76.96%	11.52%	11.52%
10	\$1,200,000	\$23,068	\$23,068	74.75%	12.63%	12.63%
11	\$1,200,000	\$23,760	\$23,760	72.60%	13.70%	13.70%
	\$1,200,000	\$226,442	\$226,442			



Profit Interest Tax Savings

Nathan/Eric
probably at
lower tax
bracket

Lower's Frank's
estate

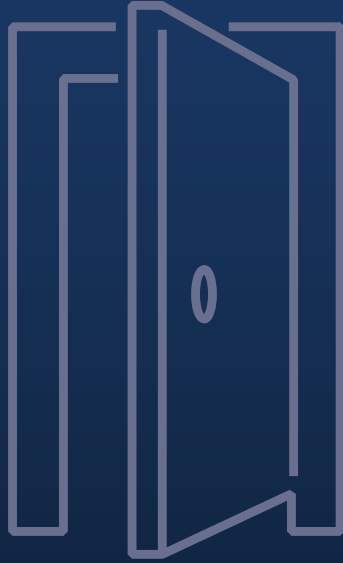
Within 10 years,
Frank transfers
over 25% of
business to sons



Profit Interest

- In theory, the amount kept in the business could be used to buy out Frank at a later date.
 - As this is money Nathan and Eric already paid tax on, it is essentially a saving account.
- Great way to transfer ownership over a period of years.





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Thank You

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