



CASE STUDY

High-End Spa



Nth Degree Helps High-End Spa Owner Avoid \$500K in Taxes and Penalties, Double Their Valuation, And Exit.



Nth Degree CPAs

www.nthdegreecpas.com

When a high-end spa owner in Sonoma was ready to exit his business and bring in new investors, he turned to the financial masterminds at Nth Degree CPAs. What they uncovered changed his entire retirement.

About the Client:

Our client, a luxurious Sonoma spa owner in his mid-70s, had been operating his business on a stunning property for many years. He was eager to pass the reins to a trusted employee and enjoy a well-deserved retirement.

The Challenge:

When this spa owner decided to sell, he assembled a team of advisors, including a business advisor, attorney, and real estate broker, to help devise an exit strategy and valuation. The real estate broker valued the business at \$1.7 million, and the entire assembled team proposed converting the partnership to a C-corp to bring in new investors.

But to get a second opinion, he brought in Nth Degree CPAs.

When our financial sleuths dug into the spa's books, we discovered:

- The real estate broker's valuation was flawed, way too low, and lacked justification (no shade but the real estate broker was not qualified to evaluate a business -- look out for this)
- \$500,000+ in potential tax liabilities, plus penalties, due to distributions in excess of basis
- The proposed restructuring would trigger taxable events for the owner and employee without any cash inflow



The Nth Degree (UN)Conventional Approach

We at Nth Degree worked closely with our client and his team to develop a comprehensive strategy that addressed the identified issues and optimized the exit plan. The key components of the solution included:

- Conducted a proper valuation, revealing the spa's true worth of \$4-5 million
- Amended past tax returns to correct for distributions and minimize tax liability
- Identified and claimed missed R&D tax credits for the spa's unique treatments
- Restructured the entity to separate operations, real estate, and IP for a tax-free transfer
- Designed an earn-out structure giving our client upfront cash and \$5-6 million more as new investors came aboard



The Solution

With Nth Degree's genius strategy, our client:

- Eliminated \$500,000 in potential tax liabilities
- Increased his potential valuation by 2-3x, from \$1.7 million to \$4-5 million
- Exited the business with no immediate tax consequences and the huge upside potential cited above
- Transferred equity to his trusted employee tax-free
- Optimized the business structure for a seamless transition to new ownership

As Dan Nicholson put it, "This case highlights the importance of having a comprehensive understanding of a business's financial situation before making major decisions. By uncovering hidden liabilities and developing a tailored strategy, we were able to help the spa owner avoid significant taxes and penalties while maximizing the value of his life's work. That's the power of proactive, expert financial guidance."



The Impact:

By partnering with Nth Degree CPAs, our client not only avoided a financial catastrophe of triggering several taxable events and missing out on a much larger valuation of his business, but also unlocked the true value of his life's work.

He was able to exit his business on his terms, secure his financial future, and set the stage for a thriving legacy.

His trusted employee also benefited, receiving equity without any tax burden. The spa is now poised for a new era of success under new ownership and investment, thanks to the optimized business structure.

The Counterfactual:

Without Nth Degree's intervention, our client would have likely proceeded with the flawed restructuring plan based on the real estate broker's lowball valuation. This type of thing makes us lose sleep at night. No one thinks that an advisor is messing up so badly -- but we see it happen frequently. At the very least, it never hurts to double check on what an advisor tells you. In this case, our client would have been hit with a massive tax bill, sold his business for a fraction of its worth, and missed out on the opportunity to maximize his life's work. His trusted employee would have also been saddled with an unexpected tax burden.

Ready to Bring on New Investors or Profitability Exit Your Business?

If you're a business owner of a \$1M - \$10M+/year company considering an exit or looking to bring in new investors, you might explore [booking a call](#) with Nth Degree's talented team so we can see if you're a good fit for our (UN)conventional strategies that could help you navigate the complex financial and tax implications of your decisions.





Nth Degree CPAs

Simple Solutions to Complex Matters

www.nthdegreecpas.com