CASE STUDY

MAGONE ADVISORS
ADVISORY • TAX • ACCOUNTING • WEALTH

Bifurcating Bank Financing Saves Food Distributor $987,000 in Federal and State Taxes

BACKGROUND

A privately held wholesale food distributor that also operates a separate real estate entity was seeking financing for expansion, and requested that Magone Advisors review the term sheet for the proposed financing.

CHALLENGE

The growing company applied for $15 million in bank financing to construct a new warehouse and corporate offices, using techniques Magone Advisors recommended to position itself for eligibility.

When our team analyzed the term sheet from the lender, we found that the entire financing was being placed under the real estate entity. This meant that the real estate entity would hold title to everything the loan financed, including the refrigeration, HVAC and racking equipment the wholesale food distributor used to run its business.

The structure of the financing would have shifted depreciation benefits away from the distributor, limiting tax deductions and reducing any applicable tax benefit.

OUR APPROACH

Magone Advisors requested that the bank bifurcate the loan, separating the financing for the building construction (which would remain with the real estate entity) from the portion financing warehouse equipment and improvements, which would then be attributed to the distributor.

OUTCOME

The bank agreed to bifurcate the financing as requested, keeping the warehouse equipment on the distributor's books. This restructuring preserved the distributor's depreciation deductions on the warehouse equipment, saving the client $987,000 in federal and state taxes.