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TAX CLIENT SUCCESS STORY

CFO TURNS TO ARMANINO FOR ASSISTANCE NAVIGATING 280G GOLDEN PARACHUTE PAYMENT RULES

Challenge

Compensation payments to the finance leader were sufficiently high enough to trigger Internal Revenue Code Section 280G.

Solution

Analyzed the computations performed by the company and proposed strategies to potentially reduce the amount of the excise tax owed.

Result

Reduced tax bill on the excess compensation, which minimized the amount of the payment which was not subject to the corporate tax deduction for the company he departed.

CLIENT CHALLENGE

The CFO of a public company was departing following a change of control. Due to a lack of planning on the part of the company, compensation payments to the finance leader were sufficiently high enough to trigger Internal Revenue Code Section 280G, the so-called “golden parachute rules”. Section 280G applies to payments when there is a change in control of a corporation. If officers, certain shareholders and other highly compensated individuals — known as disqualified individuals — receive parachute payments that are, in the aggregate, equal to or greater than three times the individual’s average compensation for the past five years, the compensation in excess of one times the five year average is subject to an excise tax of 20% in addition to regular income and payroll taxes. Additionally, Section 280G disallows a corporate tax deduction for the payments subject to the excise tax. The executive’s former company offered a gross-up bonus to help offset some of the taxes, but he was still going to be on the hook for tens of thousands of dollars in taxes out of his own pocket.

ARMANINO’S SOLUTION

The executive turned to Armanino Tax partner Peter Klinger for assistance in analyzing the computations performed by the company and proposing strategies that could potentially reduce the amount of the excise tax he owed. In addition, the executive asked for guidance to ensure that the new company he was joining would not run into similar problems in the future. By assessing the valuation that the executive’s previous firm had done through their consulting partner, Klinger was able to identify factors like non-compete worth and reasonable compensation for future services, as well as errors in the analysis, that had a significant beneficial effect on the tax due.

THE RESULT

Klinger was able to help the executive significantly reduce his tax bill on the excess compensation, which also minimized the amount of the payment which was not subject to the corporate tax deduction for the company he was departing. The executive was so happy with the results that he asked Klinger to play a role in helping to bring another employee on board at his new company who also had just gone through a change of control and faced substantial excise taxes. Through negotiation, Klinger expects to reduce or eliminate entirely the new employee’s tax burden, which will allow the executive to reduce the sign-on bonus necessary to land his future colleague.

OUR EXPERT

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