

Family Limited Partnership Solves Complex Real Estate Reporting With Help of Family Office Team



CASE STUDY



Challenge

Limited ability to report complex real estate transactions hindered a family limited partnership's tax compliance and planning efforts.



Solution

Armanino's Family Office team worked with the in-house staff to improve technical transaction recording and property reporting for tax returns and projections.



Result

The partnership reduced costs by saving time on financial statement preparation and avoiding potential tax penalties.

Challenge: Complex Real Estate Transactions Overwhelm Staff

A family limited partnership (FLP) managing a real estate portfolio of 30+ properties across the United States was growing steadily. But as the FLP's business continued to mature, the complexity of the real estate transactions kept increasing. Their small but highly valued internal team was struggling to properly record technical transactions such as monthly property management activity, real estate asset purchases, sales and §1031 exchanges – on top of their core duties.

These responsibilities were overwhelming the team and led to the FLP's tax advisors, Armanino, needing to consolidate financial statements across disparate systems. This was an inefficient use of both teams' time that could be better used on strategic planning. The back-office structure laid the brunt of the technical recording burden on the in-house bookkeeper, who excelled at her primary responsibilities but didn't have experience with the growing technical aspects the FLP needed.

Additionally, the FLP wanted to clean up the books in case they decided to sell the partnership or seek further outside investments. Without the ability to

present in-depth financial statements with confidence, it was unlikely they could show an accurate assessment of the value of their holdings.

Solution: Collaborating to Overcome Lack of Internal Expertise

The partnership had a high-level understanding of their reporting needs, but they also knew they lacked the technical knowledge to correct the issues internally. Since the family had an existing relationship with Armanino as a tax client, they reached out for help from the firm's Family Office team. Armanino's Family Office experts were a perfect fit because of their extensive background in tax planning and preparation, their real estate transaction reporting and industry expertise, and their ability to work alongside the internal staff to improve back-office processes.

The partnership initially engaged Armanino to oversee the in-house bookkeeper and provide education on ways to improve technical tax reporting processes. But both sides quickly realized that the bookkeeper's time could be used more effectively focusing on key day-to-day tasks. Armanino's team identified five solutions to rectify the FLP's financial recording and

reporting challenges:

- Partner with the FLP's bookkeeper to facilitate her job and function as an additional bookkeeper
- Conduct a one-time cleanup project where Armanino updated the balance sheet for real estate sales, purchases and §1031 exchanges
- Prepare adjusted journal entries and reconciliations of property management activity
- Produce tax-ready financials for tax returns and projections
- Set up a monthly meeting with the bookkeeper for accounting support and advisory

For this coworking arrangement to run smoothly, however, Armanino's experts needed to establish trust and reaffirm their purpose as an additive team (not a replacement), with the goal of supplementing the FLP's internal people and preparing the books for presentation.

Results: Improved Processes Yield Time and Cost Savings

Armanino's Family Office team cultivated a fruitful relationship with the FLP's bookkeeper, which yielded bottom-line results. These included reducing

internal time and expenses dedicated to fixing financial statements, delivering more insightful reports to help Armanino's tax professionals produce more accurate quarterly tax estimates and returns, and providing greater peace of mind for the FLP regarding their internal operations, thanks to the newfound process improvements.

Today, the Family Office team only works with the bookkeeper a couple days a month. This time is spent reviewing the FLP's QuickBooks accounting file and ensuring the financials delivered to Armanino's tax advisors are digestible for a tax return or reporting to third parties.

The FLP further benefits from having Armanino as a readily available resource to advise on potential future organizational decisions. For example, the partners are considering giving some of their interests to other family members, which would require additional estate planning. There is also the possibility of selling the partnership.

In either event, the FLP is more confident in the valuation of their holdings performance and ready to act more decisively.

MAKING AN IMPACT

“ We were able to answer the client's questions based on our extensive experience within the real estate industry, thereby reinforcing the relationship and becoming a valued resource available to advise on organizational decisions.

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