Revenue-Sharing Case Study

In a revenue-sharing arrangement, the advisor who is assuming the client relationships would agree to pay a share of the revenue, typically net of broker/dealer retention. For illustration purposes, we will assume that the net revenues are $400,000 annually and the sharing agreement calls for a 25% annual payment to the disabled advisor for five years.

Under this scenario, the party that is paying $100,000 is eligible for an ordinary tax deduction in the year paid, and the party receiving is liable for both ordinary income and self-employment taxes on the amount received (assuming there are no other business-related costs he or she can use to offset the income).

Two potential advantages of a revenue-sharing arrangement are (1) the current-year deduction for the party making the payments, and (2) the contribution to the receiving party’s Social Security wage base.

From a tax reporting standpoint, the paying party would issue an IRS Form 1099-MISC annually (www.irs.gov/uac/Form-1099-MISC,-Miscellaneous-Income) for the gross amounts paid, and the receiving party would report the income he or she receives on IRS Form 1040.

This information likely does not address the implications of each specific transaction. Please be aware that this information is intended to provide an overview only and is not a substitute for specific transaction guidance from an attorney, certified public accountant, enrolled agent or other subject matter expert. For specific transactional related advice, please consult with your own tax and/or legal counsel.

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