Considerations on Selling Your Business

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Whatever your motivation for selling your business, you'll only get one chance to maximize the return on your years of hard work. Do it the right way and you could get the price you want and reduce the impact of capital gains and estate taxes. Do it the wrong way and you might end up with a hefty capital gains tax bill and estate planning headaches.

You can increase your chances of a successful sale if you coordinate your efforts and work closely with a financial professional from the very moment you start thinking about selling your business. A financial professional, with the assistance of a qualified appraiser, can help you place an accurate value on your business interest and provide the critical insight and expertise needed to steer you through a complex and time-consuming process.

Potential Buyers

Consider your potential buyers. Are you planning to place your business on the market for anyone who's interested? Or, do you want your business to stay within your family? If so, do family members have the means to buy it? Might your senior managers or other employees be interested in purchasing your business interest? Dealing with succession issues early in the sale process is important. Once you have, the next step is to determine the most advantageous way to sell the business. Here's a brief overview of some of these options.

Stock versus Assets

While buyers may prefer to buy assets, if you're selling an incorporated business, you generally can get a better tax deal by selling stock. In the case of a business asset sale, you may have to pay taxes twice - a corporate capital gains tax on the sale of the assets (at the same rate as for the corporation's ordinary income) and an individual income tax on any corporate distributions received by the stockholders. Selling stock, instead, allows you, as a shareholder, to pay tax only once, at the more favorable 15% capital gains rate. There is no corporate level tax.

Owners of small businesses can get an even better deal. If you sell your business interest as Qualified Small Business Stock (QSBS) and buy other QSBS, you may be able to roll over your gain tax free. (Additional requirements apply.) Alternatively, you can exclude 50% of the gain from your taxable income if you held the stock for more than five years and meet other tax law requirements. The remaining gain is taxed at a maximum rate of 28%. In general, gain qualifying for the 50% exclusion cannot exceed $10 million or 10 times the QSBS's base disposed of during the year (whichever is greater).

Installment Sales

With an installment sale, you ask the buyer for a down payment and a note covering the balance of the purchase price. You report taxable gains as you receive payments from the buyer, rather than all at once in the year of sale. You also must report the interest payments you receive on the note as ordinary income. When correctly structured, an installment sale can "freeze" the value of the business at its sale price for tax purposes. So, if the business continues to increase in value, your estate will not owe taxes on any appreciation generated after the date of the sale.

Private Annuity Sale

Under this type of arrangement, the buyer of your business agrees to make periodic payments to you for life in exchange for your interest in the business. This approach guarantees you a lifetime income and is taxable to you under special rules. Moreover, the annuity arrangement removes the value of the business from your estate for tax purposes.

To help maximize your financial return on the sale of your business, consult us before you put your business on the market.

For more information on how ESG and its national platform of M&A firms and Investment Bankers can help sell your business, please call us at 201-556-4618 or 1-866-807-0325, or email us at DPrisciotta@equitystrategiesgroup.com.

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