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October - In This Issue:

INDUSTRY KNOWLEDGE & ACCESS TO BUYERS NATIONWIDE

Our presence as a Professional Business Broker is extended nationally as a result of being an affiliate of BHarmony, LLC. We also bring decades of experience and functional expertise in all the popular market segments as a result. Nothing takes the place or value in that of experience.

We partner with our clients to deliver solutions that help solve their most complicated needs prior to, during, and at the conclusion of the selling process. Our services are designed specifically to help small/medium size businesses and at a small business price. We go beyond the norm to

Achieving a Partial C-Corporation Tax Benefit

In the last issue we discussed the obstacle whereby owners are surprised by *C-Corporation Tax Implications.* This issue, *Achieving a Partial C-Corporation Tax Benefit*, will provide preliminary information about a complex way to achieve a partial tax benefit if you sell your business in less than 10 years after switching from a C-Corporation to another business entity type.

If you recall from our last issue, the "double taxation" of C-Corporations result in horrendous tax implications in a business sale of their assets. First the corporation pays a tax on the gain from the sale which typically ranges from 34% to 39%. Then the net proceeds, after the corporate tax, are taxed again when the monies are distributed to the owners of the business.

To shelter taxes, consider switching from a C-Corporation to a S-Corporation. The complex "built-in gain rule" may save taxes if the business is sold within 10 years of changing the type of corporate entity.

10 year transition

Non-C-Corporations, such as S-Corporations, LLC's and partnerships ("flow-through entities") are not taxed at the corporate/entity level, but instead the profits/gains flow through as personal income to the owners of the business, and a substantial portion of the proceeds may qualify for capital gains tax. Unfortunately, if you change from a C-Corporation to a flow-through entity, the Internal Revenue Service has a 10-year "built-in gain rule," which still taxes the sale of the corporation's assets at the "double-taxation" C-Corporation tax rates if those assets are sold within 10 years from the date of the S-Corporation election.

develop new insights, prepare, market and drive results in the sale, thus insuring you receive the most value at closing. **Learn More**

Believe It Or Not

In his 15th edition of The Business Reference Guide, Tom West attempted to answer the question: What percentage of businesses are ultimately sold? Because business sales are private transactions, Tom acknowledges it is an impossible task, but he goes on to provide an educated guess.

It's shocking! Only about 25% of businesses ever sell!

Estimated percentages of businesses sold by business size, Tom categorized companies into the following groups:

- Level One - Sales under $500,000 and fewer than 4 employees. Tom estimated that only 20% of these businesses will ultimately be sold.
- Level Two - Sales of $500,000 - $1,000,000 and 5 - 9 employees. Again, Tom estimated that only 20% of these businesses will ultimately be sold.
- Level Three - Sales of $1,000,000 - $2,500,000 and 10 - 19 employees. A little better, but not much. Tom estimated that only 25% of these businesses will ultimately be sold.
- Level Four - Sales of $2,500,000 - $10,000,000 and 20 - 100 employees. Better yet, but not great. Tom estimated that only 33% of these

Built-in gain

Wow, that last sentence is complex. That's because the regulations are complex. And the complexity grows. If you can document the "built-in gain" as of the date you make the change, your C-Corporation tax will be limited to that "built-in-gain" and any future appreciation in value of those assets will be taxed as an S-Corporation. That means you need to appraise your hard assets and also appraise the value of your business as of the date you switch to an S-Corporation so you have records indicating the amount of the built-in-gain.

It is not unusual for goodwill to be a substantial portion of total business value

Due to high levels of Seller's Discretionary Earnings (SDE) most successful businesses have a fair market value in excess of the value of their hard assets. As a simple explanation, the value of the business in excess of the value of the hard assets is known as goodwill, which is typically the portion of a business sale that is taxed at capital gains rates in flow-through entities. For example (again, simplifying the complexity), if a business has $300,000 in assets and the business is worth $1,000,000 based on its SDE, the goodwill value is $700,000, most of which will be taxed at capital gains rates for a flow-through corporation. Especially for highly successful businesses, it is not unusual for the value of goodwill to be a substantial portion of the total value of a business.

Obtain a professional business appraisal when changing to a flow-through entity

In all this complexity, here's the key point. If you anticipate the value of your business will grow substantially in the next few years, the value of your goodwill is likely to increase significantly. As part of businesses will ultimately be sold.

So why enlighten me with these somewhat depressing statistics?

We would like to start working with you today to make certain that when you are ready, you will get the most for your business and be on the positive side of the statistics above. Call us for a free preliminary evaluation of what companies like yours are selling for right now.

It All Starts With You

"All personal achievement starts in the mind of the individual. Your personal achievement starts in your mind. The first step is to know exactly what your problem, goal or desire is."

W. Clement Stone

DON'T MISS OUT - Interest rates are low, Strategic Buyers, Family Offices, and Private Equity Groups are very active. It costs nothing to discuss the value of your Business - contact us.

your exit strategy planning, it may be beneficial to change from a C-Corporation to an S-Corporation. If you and your advisors determine it is advantageous to do so, and there is a possibility you might sell the business in less than ten years, it's a good idea to have your business appraised to identify the "built-in gains" as of the changeover date.

In many circumstances, the tax savings of exiting your business as an S-Corporation versus a C-Corporation can be substantial. But this is a very complex issue that requires advice and analysis by an experienced and competent tax professional. If you own a successful business that operates as a C-Corporation and intend to sell it at any point in the future, you should find a professional tax consultant to discuss the advantages, disadvantages and tax implications of a conversion to an S-Corporation.

Is your business organized as a C-Corporation? If so, get some professional tax advice today.

Another Favorite Famous Quote

"A fool thinks he needs no advice, but a wise man listens to others."

The Bible

Overcome the Power of Inertia

Overcome the Power of Inertia and call or email us for a free consultation. We offer no-charge, no-obligation evaluations of small businesses like yours. We can provide a 3rd party, educated, and experienced opinion of value to help you identify obstacles to a successful sale as well as opportunities for improvement to increase the value of your business. That is a great way to start planning for a successful and profitable exit from your business.

Next Issue: **Inadequate Record-keeping / Accounting Systems / Financial Reports.**

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