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A Business Sale without Tax Planning?

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Michael Feite

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By Michael Feite, Managing Director

Ask ten potential sellers what's most important about selling their businesses and at least nine will answer, "Getting the highest price."

That's not true, or at least shouldn't be. Typically, finding an investor with a full price offer for a business is less challenging than finding a seller who can project the true cash proceeds of the sale. That's because most sellers tend to postpone their tax review until having received an offer. However, just like any other transaction, being unprepared and not knowing the closing cash beforehand will not motivate any seller to expedite a transaction; worse yet, the seller will "stall" while trying to assess the net proceeds and the buyer will lose interest in the transaction.

At A. Neumann & Associates, LLC, we often encounter sellers looking more for the top line on their business sale, rather than at the net receipts of a transaction. As in business, higher sales revenues will not always lead to higher net receipts (or profitability). Simply put, a fair market sale price should be known to the business owner, but it's only one component of the transaction. The owner also needs to consider the "actual" money they are achieving from the deal. To address both issues – understanding both the true market value and the net cash proceeds – a seller should use third party valuations and proper tax planning.

A stunning number of owners don't have any idea what their business is worth, let alone how much money will be in their hand at closing. What's worse, they see the necessary advisory services to determine these numbers only as a cost item instead of a way to maximize the return on their business investment.

A common misconception is that a seller's accountant or CFO will be able to perform these tasks cheaper and faster. However, a CPA can't know the real value of a business – unless they are an accredited independent valuation company. Furthermore, many accounting firms have been focusing for years on minimizing clients' taxes each year. At the time of a transaction, however, their clients could have significant capital gains taxes due to depreciation recapture and other tax timing issues.

The only way to help a business owner to get a clear picture of the net receipts of a transaction is to perform an independent accredited business valuation, and then have a qualified tax planner work on a tax minimization strategy before the business is put up for sale. A strong M&A advisory firm will be able to sell a business at maximum value, plus ensure that the proper tax planning resources are employed to maximize the seller's receipts.

In sum, a seller should use a qualified M&A advisory team to position a business for sale, and that team needs to

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prepared and to be ready for a deal when the opportunity arises.

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Michael J. Feite, Jr is Managing Director Eastern Pennsylvania Region [Michael.Feite](http://www.neumannassociates.com) [sociates.com](http://www.neumannassociates.com).

Michael brings over 15 years of business ownership and operations expertise by having specialized in mid- market companies within the hospitality industry, with focus on strategic marketing and construction management. Michael's business ownership includes the acquisition of two country clubs in southeastern Pennsylvania. He has first- hand deal making knowledge in negotiations, obtaining financing, business valuations and due diligence. Michael's operational expertise included directing a staff of 350 employees at multiple facilities. He was involved in all aspects of the businesses which included strategic planning, sales and marketing initiatives, forecasts and budgeting, as well as the managing of purchasing, vendors, and subcontractors. He is a creative leader with proven strengths in P&L management and turnaround operations. Michael brings a unique understanding from a business owner's perspective by having bought and sold successful companies on his own account. He has the passion to provide similar results for his clients, through producing valuable industry valuations and confidential asset transfers. His background includes a BS degree in Marketing from the Haub School of Business, St. Joseph's University, Philadelphia, PA. He lives in Bucks County, PA with his wife and two sons.



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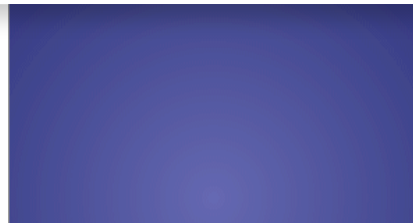
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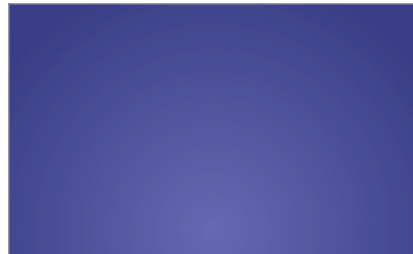
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