



Business Ownership

BIZ ADVOCACY

THE ADVOCATE VOICE FOR BUSINESS OWNERS



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Minimizing Tax Exposure In Exiting Business Ownership

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During my 35 years as a tax practitioner I have found that there is nothing more traumatic to business owners than a large unexpected income tax bill. This is doubly true when the tax involves the largest transaction of their lives – the sale of their business.

Consider the nightmarish case of a sale of assets by a C Corporation where, say, \$1,000,000 is going to Business Value (Goodwill). The owner's corporate tax is \$340,000 and the capital gain on the \$660,000 left after corporate tax is \$99,000, leaving only \$561,000 for the owner out of the original \$1,000,000.

It is tragic to see half of an owner's lifework lost to taxes. But it is even more tragic not to know that such huge taxes can be minimized with a little planning and "horse-trading". Some examples:

1) Sell Stock, Not Assets.

The entering party loses his tax benefit on the \$1,000,000 of Business Value (Goodwill), but remember that he gets his benefit in installments over 15 years, so the present value of his \$340,000 tax savings is only about \$160,000 (at 12% interest). Sell stock for \$840,000 (\$1,000,000-\$160,000) and the owner keeps \$714,000 after paying capital gains tax – a savings of \$153,000.

2) Take A Non Competition Covenant. It's taxed to the owner as ordinary income, but it is not double taxed. The owner probably saves \$100,000.

3) Lease or License Assets. This strategy can produce real tax savings as well as postponement of taxes.

4) Review Asset Value Allocations. An asset may be undervalued whose gain is taxed more favorably... real estate owned outside of a C-Corp.

Of course, even when taxes have been minimized some owners can't bring themselves to write that big check to the IRS all at once. Taxes can be postponed, often with further savings, using tax deferral strategies such as these:

A) Sell Stock on an Installment Note. The owner pays tax when he gets paid and earns interest on the before-tax amount.

B) Do a Tax Free Real Estate Exchange. The owner can often transfer into an income property with a credit tenant and borrow most of the value on a non recourse note. The tax can be postponed indefinitely.

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Affiliate Offices

- Billings, MT
- Boise, ID
- Bozeman, MT
- Charlotte, NC
- Chattanooga, TN
- Dallas, TX
- Denver, CO
- El Dorado Hills, CA
- Hudson, OH
- Idaho Falls, ID
- Jupiter, FL
- Lolo, MT
- Lexington, KY
- Old Saybrook, CT
- Overland Park, KS
- Phoenix, MD
- Rockville, MD
- San Francisco, CA
- Spartanburg, SC
- Spokane Valley, WA
- Trinidad, CO
- Wichita, KS

Simple Ways To Motivate Employees

One of the biggest challenges of a leader is motivating people. A leader needs to constantly look around to see if others are marching to the same drum. Motivation can be accomplished with more than just money...here are some simple steps.

It is the responsibility of the boss to be sure everyone buys into the mission that is to be accomplished. The leader must be clear in the purpose of the group and all participants must share excitement in the mission.

Leaders must challenge all with opportunities that stretch their limits of accomplishment. However, the challenge must not exceed the ability of the group to accomplish. Nothing is more motivationally defeating than losing at an impossible task.

We've heard this many times, but it is still true. People respond to individual recognition because they want to sense the appreciation of leadership/clients/customers. Unfortunately, some leaders fear the possibility of hurting the feelings of those who do not

"win" awards offered. This thought is more often the insecurity of the leader, not the employees. Jack Welch once said: "This nonsense (hurting the feelings of losers) indulges the wrong crowd! If you have the right people—competitive, upbeat, team players—recognition only raises the bar for everyone."

Take motivation a step beyond individual recognition and have a real celebration for all involved in successful achievement. Set a date, invite everyone (including families, friends, clients/customers) and celebrate group success with a fun picnic, banquet, trip, etc. Be sure that media is aware of the accomplishment(s)...make it a big deal!

Be sincere. Leaders must be concerned for individual as well as group growth and success. In addition to group and public recognition, leaders should privately show pride in the accomplishment of each individual!



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Minimizing Tax Exposure In Exiting Business Ownership (continued from Page 1)

C) Consider an ESOP.

When available, an ESOP can postpone taxes indefinitely much like a real estate exchange.

D) Charitable Remainder

Trust. Taxes postponed until funds are received, with a big gift to charity when the owner's designees are deceased.

There are many strategies

available to reduce, postpone or eliminate income taxes of business ownership transfers. Choosing the right tax plan is a matter of working with the business owner to match his desires with the available options. In the end, most business owners will determine how much tax they are willing to pay based on the complexity and freedom offered under competing strategies.

My advice to business owners is to **control the tax status of the transaction** by working with a **Primary Business Consultant** and qualified tax advisors. Discover the tax problems early and work with these trained professionals to find the solutions. Structure the transaction to minimize the taxes. Taxes are an ugly reality in business sales, a bit like a skunk at a garden party. But if you deal with the problem quickly, it doesn't have to ruin your day.



Winning Through Negotiation

Some think we are in World War III and that it will never end. There may be some truth here; however, negotiation can be a much better way of resolving some conflicts, especially those in the business community.

Negotiations work better in the absence of theatrics. Stay cool, be polite and tactful. Relax; it is probably not the

end of the world. If others are trying to push you around, just delay the meeting and suggest everyone get together at a later date.

Ask questions...ask the right questions...ask the right questions in the right order that can lead to negotiated settlements, not intimidation.

Listen...never interrupt the

other person (s)...hear them out!

Don't let anyone rush you to a decision. When someone is trying to rush you, it often is evidence they are trying to take advantage of you. Take time to think things over, seek good counsel and advice. Keep talking, don't get mad, and keep listening!

A successful win is a win-win where all involved receive their just rewards. Most who win wars, also lose a few battles along the way. Don't attempt to take advantage of others...just proudly accept that which you win (earn) through superior performance and credibility.

Keeping Your Business Out Of Trouble

There are many common causes of business failure which you should constantly review...here are some of them:

- Poor morale
- Unpaid taxes
- Losing major customer (s)
- Not keeping up with new technology
- Deteriorating equipment
- Deteriorating sales/net profit/cash flow
- Owner burn-out
- Deteriorating capital base
- Poor Perseverance





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Comments from Appreciative Clients

As I look back now, I had no idea that buying a business could be so complicated. If it hadn't been for your staff, I would have thrown my hands in the air and walked away after the first meeting with the bankers and other involved parties ...you led the charge with savvy and expertise that are a must in the red tape.

(C&J Johnson)

You not only helped direct me to several financing sources, but served me successfully as a Primary Business Consultant. I was happy with the changes you recommended and the appraisal you arranged was over \$570,000 more than I expected.

(W Ray)

The sale of my business was handled very successfully because of your diligence and vast experience in the field. Two other companies tried to sell my business for over two years...you sold it quickly and for more than I had asked.

(P Hinsby)

"Honesty, forthrightness, and courage are required to build trusting relationships."

Richard Strozzi-Heckler