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CLIENT'S tax & financial UPDATE

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How To Sell Your Business

There are two equally important stages in the successful sale of a business. The first stage is preparing the business for sale and the second is finding a buyer and getting the best possible price.

Preparing your business for sale. This stage is critical and should begin well in advance of the time you actually put the business up for sale. During this period, your goal should be to establish a solid history of profitability since the first thing any buyer looks at will be profits. Although it's up to the buyer to judge potential profitability, it's your job to clearly demonstrate past and present profitability.

To establish an impressive track record, you may have to abandon some common business practices. For example, you may be able to improve your profit picture by putting less emphasis on tax savings strategies.

A business buyer will also look at key employees—those who are responsible for the success of your business. Make a strong effort to retain these employees, even if it means offering them extra incentives to stay with the business, at least up to the time it's sold.

Setting a price and finding a buyer. There are several factors that will determine what your business is really worth. One factor that's sometimes overlooked is whether a business outperforms others in the same industry. You can get information about typical industry performance from trade associations and business publications. If your business outperforms others, it's worth more.

A complete, well-prepared financial statement will speak for itself, but the intangible assets of your business are also worth money and you should discuss them and explain their value to a potential buyer. Goodwill is responsi-

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*tax*POINTS

Pay dividends on accumulated earnings. Many regular (C) corporations have large amounts of accumulated earnings that were retained in the business over past years to avoid high tax rates that then applied to dividend distributions. ***Last chance?*** Now may be the best time there will ever be to take accumulated profits out of a corporation through tax-favored dividends. ***Reason?*** At 15%, the top tax rate on dividends has never been lower, and taxes will probably go up in the future. Certainly, the top rate isn't expected to be *reduced* further.

Set up a 401(k), Keogh, or other retirement plan by year-end. Most (though not all) types of retirement plans must be established by year-end to take deductible contributions for 2011 though contributions themselves can be made in 2012 by the due date of the firm's 2011tax return. Explore your options with your tax adviser now.

Hire family members. Children home from college and other family members who are in low tax brackets can receive wages that are deducted at the business's high tax rate and taxed at the family members' own lower tax rates. The "kiddie tax" that applies parental tax rates to a child's investment income does not apply to earned income.

Tax shelter: Vacation homes. Taxpayers who own a vacation home and rent it out for fourteen or fewer days during the year are not taxed on the income they receive. In addition, the rental income need not be reported on your federal individual income tax return.

What to Look for in a Leasing Agreement

It makes good financial sense for some companies to lease, rather than purchase, major pieces of equipment. If you're considering such a move, you should look at the leasing agreement as closely as you look at the equipment. Remember, leasing companies write leases to protect themselves, not their customers. It's up to you to check the agreement carefully and to negotiate changes that you think are important to your interest. Here are a few important elements to look for.

Good references from other customers.

As with any supplier, you should know with whom you're dealing. A leasing company sells more than use of the product; it should also provide service and product satisfaction to its customers. The leasing company that deserves your business should have a good track record in this department. Ask for a list of references and check them out.

The real cost of the lease.

A good agreement will clearly state the amount and schedule of each payment, as well as the total amount you will pay over the term of the lease. There may be additional costs involved, such as a charge for installation or possible license fees. You should also know who is responsible for insurance coverage and whether it is included in your lease payments.

T-Bill Timing to Save Taxes

U.S. Government Treasury bills are a uniquely attractive investment. In addition to being the safest investment you can make, T-bills offer tax-timing features that can save tax dollars.

T-bills with maturity dates of one year or less let you defer interest income.

T-bill interest isn't taxed until the T-bill matures. So, if, for example, you buy a 360 –day T-bill in May of 2011 that matures in May 2012, your tax on the interest income won't be due until April 15, 2013.

T-bills let you lower the tax on interest.

If you withdraw money from a CD before it matures, you'll pay a penalty. This is not true of T-bills which can be sold before they mature to reduce the tax on interest.

Here's one example of how T-bill timing can work. Assume you buy a one-year $200,000 T-bill in May of 2011. You pay $194,000. By May 2012, $6,000 in interest will accrue. But in December of this year, you realize you'll be in the 15 percent tax bracket for 2011 and in the 28 percent tax bracket for 2012. Therefore, you sell the T-bill in December of this year, collect the interest income for this year, and pay 13 percent less tax than you would if you held the T-bill to maturity.

Reduce Your Income Tax with an Installment Sale

If you're thinking about selling real personal property at a substantial profit, you should consider an installment sale. An installment sale lets you report your capital gains over a number of years and can often result in sizeable tax savings.

Take Fred Butler, for example, Fred owns Greener Pastures, a thriving landscaping business. Greener Pastures was born when Fred entered State College and spent his summer vacations mowing lawns to help pay for his tuition. Fred quickly built a reputation for reliability and soon hired several fellow students to keep up with the demand for his services. By the time he finished his education, Fred had cultivated a growing business.

Now Fred wasn't the type to let the grass grow under his feet. So when one of his customers told him that he was thinking of selling a piece of land that Fred had maintained for some time, Fred plowed $120,000 of his hard-earned profits into what he hoped would be a profitable investment.

Fred was right. Several years passed, and when land values blossomed, Fred decided to sell the property. It didn't take long to dig up a buyer and when the property was sold for $200,000, Fred made a handsome profit of $80,000.

Unfortunately, Fred didn't realize that he had a silent partner who would reap a good portion of Fred's harvest. When Fred filed his 2010 federal income tax return, he discovered that, based on his $75,000 salary from Greener Pastures, capital gain of $80,000 from the sale of the land, 2010 joint return tax rates, personal exemptions of $7,300, and ignoring all other deductions, his federal income taxes totaled $17,856.

A Better Solution

Fred had a green thumb for the landscaping business, but he paid a costly price for not knowing about the advantages of an installment sale. An installment sale would have allowed Fred to use the installment method of reporting his gain. Using that method, Fred's taxes on the gain would have been deferred over a number of years and his current taxes would have been sharply reduced.

Under the installment sale method of reporting, the gross profit on the sale (when at least one payment is to be received after the year in which the sale is made) is prorated over the years in which payments are received rather than taxed in the year of the sale.

The taxable gain from an installment sale is determined by multiplying the installment sale receipts in the taxable year by the gross profit ratio for the sale. Because the gain is spread over a number of years, the installment method will usually result in a lower total income tax. (Special rules apply to dealers and to property used for business or owned for income).

Here's what this would mean to Fred Butler. If he had made an installment sale over four years and received payments of $50,000 each year, he would report only $20,000 of income for the sale on his 2010 income tax return as shown here:

Gross profit ($200,000 selling price less $120,000 cost)	$80,000
Gross profit ratio ($80,000 gross profit divided by $200,000 selling price	40%
Taxable income (40% of $50,000 per year)	$20,000

For Fred, this would produce significant tax savings. If he had sold his land and received payments of $50,000 a year for four years, he would report only $20,000 in gain on his 2010 tax return instead of $80,000. This would reduce his federal income tax from $17,856 to $8,856.

Deciding when and how to make an installment sale requires training and experience. Please call we will be glad to give you the professional advice that's right for your situation.

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How to Sell Your Business

ble for your company's financial stability and growth potential. Proven marketing ability, a solid customer base, and good management practices also add to the value of your business. These intangibles can have a very positive influence on a prospective buyer.

And don't overlook hidden strengths of the business. For example, be sure to point out any tangible assets that are carried on your books at less than market value.

The key to finding a buyer is networking. Get the word out that your business is for sale through your accountant, your lawyer, your banker, and your business associates. Approach potential buyers within your industry either directly or through third party "finders". Often, the best prospective buyers are companies who sell through similar distribution channels or whose product lines or production capabilities can be improved by an acquisition. And the possibility of an increased market share may turn a competitor into a buyer.

Be sure to work closely with your accountant before you structure a sale. The tax ramifications of a business sale are often as important to the buyer as they are to a seller.

How to Cut Overhead Without Hurting Morale

When payroll cuts become necessary many companies face a drop in employee morale that can seriously damage operations. Key employees frequently become less productive and are more receptive to other job opportunities.

Here are some proven strategies that can help you make overhead cuts without damaging employee morale.

Tell your employees how the cuts will actually strengthen the business. For example, explain that the money saved will be invested in new equipment and more advertising to make the company stronger. Never announce that people must be terminated because expenses are too high.

Make your cutbacks equitable. Don't create unnecessary resentment by keeping excessive top management perks.

Use incentives to encourage voluntary resignations. Consider options such as early retirement packages. Or help employees set up their own businesses with you as their first customer. Custodial workers, graphic designers, and others can often provide their services as subcontractors on an as-needed basis.

Six Steps To A Worry-Free Retirement

By the time you reach 50, your plans for a comfortable retirement should be well underway. To reach that point, you should have a strategy which includes as many of the following steps as possible.

1. **At any age**, have enough cash available to cover your living expenses for three to six months.
2. **If you have children**, begin a college education fund for them as early as possible.
3. **If you are under 35** and don't own your own home, begin to save money specifically for that purpose.
4. **If you are under 35**, make some growth investments that you won't have to touch for at least ten years.
5. **If you are under 40**, save 10% of your annual income and invest part of it in a tax-deferred IRA or 401(k) plan.
6. **If you are 40 or older**, put aside 10% of your income to be used exclusively for retirement.

Don't be discouraged if you can't fully implement all of these steps simultaneously. You can begin your plan quite modestly and, if you maintain it regularly, the chances are excellent that you'll be able to retire worry-free.

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