

GETTING READY TO SELL YOUR BUSINESS

Those of us who don't intend to work forever and who don't have family members to take over our business will, at some point, want to think about selling. A successful sale of any business requires planning, and some of that planning needs to start well before the business is even offered for sale. Here are some ideas on how to get your business, and yourself, ready for a sale.

The first and most important step in preparing to sell a business is making sure that your financial records are in order. This means that your income statement and balance sheet, as well as your tax returns, need to reflect all of your business' income and a must properly disclose your expenses. Your financial statements and your business tax returns will be the first items that a potential purchaser will want to see. Those documents are the only credible evidence of how the business has performed.

For some business owners, development of good financial records will need to start at least a few years prior to the time the business is put up for sale. This is particularly true for owners who have been "sloppy" about running all of the business income through the business account or who have been "aggressive" in writing expenses through their business. If your financial records understate income or overstate expenses, your business will not sell for its true value.

Even if you have done a good job in keeping accurate financial records, you will want to identify items of expense that are somewhat discretionary in nature. This may include things such as travel and entertainment, ownership of expensive cars, club memberships, attendance at conventions and trade shows, and compensation paid to family members. If these types of expenses are truly discretionary, it is appropriate to add these types of expenses to the profit of the business.

What is the fair market value of your business? The term "fair market value" is simply what a willing purchaser is willing to pay and what a willing seller is willing to accept for the business. We generally recommend obtaining an independent appraisal of the business from a reputable appraiser. This will assure that you do not "under-price" the business, and it will provide some additional comfort to the prospective purchaser regarding the fairness of your asking price.

Next, you need to prepare yourself for a potential sale. Is the sale of the business consistent with your personal plans? How much revenue must be generated from the sale of the business to allow you to pursue your goals? It may be that you need things other than cash to make the sale a good proposition for you. For example, if the proceeds of the sale will be insufficient to support you financially, you may want to negotiate continued employment as part of the deal. If you or your spouse is ineligible for Medicare, you may wish to negotiate continued health insurance from the business until both of you become eligible for Medicare benefits.

In order to fully understand the implications of a business sale, you need to consult with a lawyer or other tax advisor regarding the likely structure of the sale and its likely tax consequences. Depending upon how your business is structured (C corporation, S corporation, LLC) and upon how the sale is structured, the sales proceeds will be subject to either capital gains tax rates or ordinary income tax rates. Frequently, some portion of the transaction produces capital gains while another portion produces ordinary income. You will be most concerned with how much you will receive after taxes.

Once you and the business are ready for sale, you will need to identify potential purchasers. If you have a group of key employees, you may wish to offer the business to them. Some business owners hire business brokers to locate potential purchasers and to negotiate the deal. While this approach can be effective, it can also be expensive. You may want to have your business advisers, such as your accountant or lawyer, contact people they know to help you identify potential purchasers. Many businesses are sold in this manner.

If your business is large enough and successful enough, you might consider selling to an employee stock ownership plan (ESOP). This is a way of selling the business to your employees, and can be a very tax efficient transaction for both you and them.

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