

CLIENT'S tax & financial UPDATE

VOLUME 33 / NUMBER 5

MAY - JUNE
2011 ISSUE

A tax, business, and financial planning newsletter for our clients and friends

How To Sell Your Business

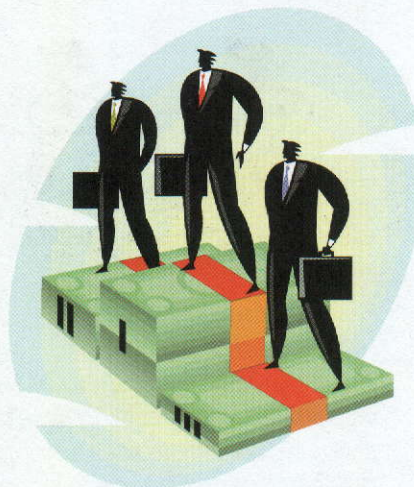
There are two equally important stages in the successful sale of a business. The first stage is preparing the business for sale and the second is finding a buyer and getting the best possible price.

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-

How To Sell Your
Business

Pay dividends on
accumulated earnings

Set up a 401(k), Keogh,
or other retirement
plan by year-end

Hire family members

Tax shelter:
Vacation homes

What to Look for in a
Leasing Agreement

T-Bill Timing to
Save Taxes

Reduce Your Income Tax
with an Installment Sale

Six Steps To A Worry-
Free Retirement

How to Cut Overhead
Without Hurting Morale

taxPOINTS

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.

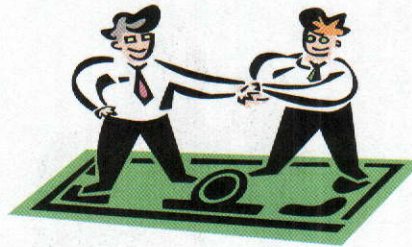
Set up a 401(k), Keogh, or other retirement plan by year-end. Most (though not all) types of retirement plans must be established by year-end to take deductible contributions for 2011 though contributions themselves can be made in 2012 by the due date of the firm's 2011 tax return. Explore your options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

