

Financial, Legal & Tax Advisory

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The Value of a Tax Minimization Analysis

When selling a business, most business owners are curious as to how much cash they would walk away with. More specifically, what tax impact would they incur, and what would be the best structure and allocation to minimize the tax impact? How would one get the answer to all these questions? A Tax Minimization Analysis (TMA) is your one-stop shop for all the above. A TMA will analyze multiple factors that play a vital role in the outcome of selling a business.

An M&A transaction is often an overwhelming process. They have a multitude of variables that could drastically influence the outcome. These variables include but are certainly not limited to the overall structure of the transaction, the asset/stock basis of the selling company, ownership configurations, real estate involvement, multiple entity involvement, liabilities paid at closing, purchase price adjustments, earn-outs, consulting fees, recaptured depreciation, and the federal, state, and local tax impact.

The sooner that all variables in the transaction are understood, the better suited your counsel will be to understand how to best combat or strategically fully use such variables possible. This is to ensure that you did not invest your life into a business to give thirty to fifty percent away in taxes when sold. The example below provides some insight into the value of a TMA. While a TMA typically pays for itself through the minimization of tax savings, there is also a possibility that the findings in a TMA could pay for the merger and acquisition (M&A) team that you engage for the transaction.

For example, let us say your business deals with complex licensing or regulation and the buyer is looking to pursue an asset sale for the benefits of immediate depreciation. With a TMA, your counsel would be able to analyze and determine which structure would best apply to this transaction, whether it be an asset, stock, or in this case a potential 338(h)(10) sale. Using a TMA, you can calculate the tax effect of each sale type (asset, stock, and 338(h)(10)) to determine what structure would be the most beneficial from a tax standpoint.

Under this example, the TMA may determine that the 338(h)10 will best overcome the complexities of assigning licenses or permits while also providing the paramount tax outcome for the seller and possibly the buyer. The professionals at The Center have forty-plus years of M&A experience and realize the importance of analyzing every factor that plays a role in the outcome of a transaction. Furthermore, we use the TMA to evolve several factors as the transaction progresses to give the business owner full insight and transparency.

This insight provides a sense of comfort to sellers and offers a strategic advantage in achieving the desired result. A successful TMA allows the client and counsel to engage in an open dialogue regarding goals and pursue the best possible transaction structure. If you are thinking about selling your business or in the process of selling your business, do not overlook the value of a TMA and reach out to the professionals at The Center at (618) 997-3436 for more information.

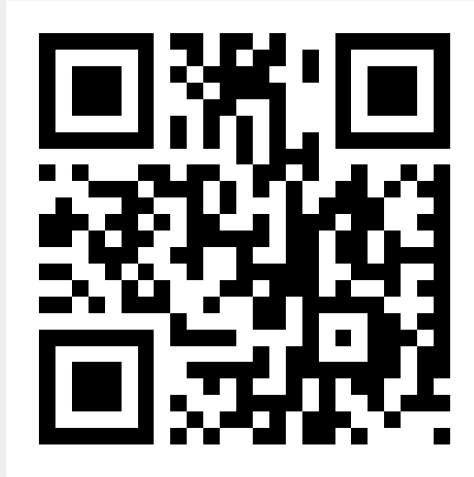
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