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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


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## taxPOINTS

**Tax Shelter: U.S. Savings Bonds.** The interest that is earned each year on U.S. Savings Bonds can be deferred for tax purposes. The total amount of interest earned need not be reported until the year the bonds are redeemed.

**Tax Shelter: Municipal Bonds.** Interest income from municipal bonds is forever exempt from federal income tax. **Added Tax Shelter:** Bonds that are issued by the state in which you reside, the income is exempt from federal and state income tax.

**Tax Shelter: IRAs, 401(k)s, and SEPs.** Contributions of money to any of these plans gives you a tax deduction or a tax deferral. **Added benefit:** Any monies earned on your investment in these plans are deferred for income tax purposes. No tax is owed until the time you withdraw the money. With Roth accounts the contributions are never deductible, but distributions are not subject to income taxes or to the 10% tax on early distributions if certain rules are satisfied.

**Loophole: Travel break.** When your husband or wife accompanies you on a business trip for a nonbusiness purpose, your travel deduction may not be limited to one half of your total cost. You may still deduct what it would have cost you if you had traveled alone. **Example:** You may deduct the single hotel room rate even though you stayed in a double room.

# The Three Basic Rules of Renting Commercial Real Estate

If your company is looking for commercial real estate to rent, there are many attractive opportunities all over the country. Rental rates vary, and space is often available because of an economy that is still trying to fully recover. However, there are so many good deals around that businesses can easily lose sight of what's really best for them. By following three basic rules, you can avoid mistakes that can be very costly over the long run.

### Rule One: Look At The Big Picture

Don't sacrifice your company's needs merely for the sake of low rent. There's plenty of commercial space available, but if you make compromises about location or how much space you need, a bargain rent could turn out to be an expensive mistake.

Suppose, for example, that you can rent the same amount of space on one floor or on two floors and that the rent for the two-floor space is slightly lower. Is it truly cost-effective to choose the cheaper space? Have you considered how much it will cost to install your computer system so it will serve two floors? Or how much your work flow will suffer because of the inefficiency of two floors?

### Rule Two: Negotiate. Negotiate. Negotiate.

In today's real estate market, there is nothing that's not negotiable. Pay particular attention to negotiating for improvements. If you need additional lighting, a bigger electrical service, a fresh coat of paint, or additional building maintenance services, remember that landlords know what vacant space costs them.

Look for a rent abatement, too. In some parts of the country, you can get a free year's rent (sometimes even more) if you agree to a five-year lease.

### Rule Three: Look For A Long-Term Bargain

Locking in a fixed rent for more than five years is usually difficult, but a landlord might be receptive to a five-year lease with an option to renew at the same rent for another five years. Even if you have to pay a slightly higher rent for the first five years, a fixed rent five-year option to renew protects your company against real estate market movements in any direction.

If rents begin to go up after five years, you can exercise your option to renew, and you've got a bargain for another five years. And if rents slide even lower, you can look at other properties after the first five years.

It's usually smart to seek expert help when you reach the negotiating stage. Don't rely on the advice of the broker who brought the property to your attention. Remember that the broker represents the landlord and that the broker's commission may be influenced by the nature of the rental agreement.

# How To Cut Capital Gains Taxes On Investments

Capital gains tax rates are low and you can still take steps to reduce your capital gains taxes even more. If you have investment in securities, here are some valuable tips.

**Sell the correct stock.** For example let's assume that you make three separate purchases of the same stock – 100 shares at $10 a share, 100 shares at $20 a share, and another 100 shares at $30 a share. Assume that you can sell the stock now at $40 a share. If you sell 100 shares now and don't tell your broker which of the three purchases to sell, the IRS will consider that you sold the first $10-per-share purchase you made, and you'll be taxed on a $30 gain.

You can avoid this problem by telling your broker to sell the 100 shares of stock you bought at $30 so your taxable gain will be $10 a share. (You might, however, want to sell the $10 stock if you have enough capital losses to offset your gain.)

**Offset gains with losses.** Consider selling some stocks at a loss if you have large capital gains. Remember that although you can deduct only up to $3,000 in capital losses from ordinary income, there is no limit on the capital losses you can use to offset capital gains.

If you're reluctant to take a loss on a stock you think will go up, you can sell it and buy it back as long as you wait at least 31 days before you buy it back. If you don't wait at least 31 days, the IRS will deem the transaction a "wash" and won't allow you to take a loss.

**Sell in the right year.** Consider selling now if you expect to be in a higher tax bracket next year. If you think you'll be in the same tax bracket, you may be better off selling in a later year and deferring the tax on your gain.

**Make a charitable contribution of appreciated securities.** If you've owned a stock for more than a year and donate it to charity, you can deduct its full market value as a charitable contribution. Be careful, however, because the gain on property given to a charity is subject to the Alternative Minimum Tax.

# Getting The Most Out of Zero-Coupon Bonds

Zero-coupon bonds ("zeros") can be an excellent investment but despite their widespread availability, many investors still don't understand them.

**How zeros work.** A zero-coupon bond is sold at a fraction of its face value. The bond pays no cash interest during its term. The undistributed interest from a zero is automatically reinvested every year at the same guaranteed rate. When a zero matures, all interest earned plus the principal is paid in a lump sum.

**Benefits.** The positive aspect of zeros is the effect of compound interest. For example, if you paid $10,000 for a 5% ten-year zero, it would be worth about $17,000 at maturity. But if you invested $10,000 in a conventional bond that paid 5% a year, the interest you'd receive over ten years would total $5,000.

**Drawbacks.** Even though you receive no annual interest from a zero, you must pay taxes on the bond's imputed interest each year. You can, however, avoid this tax by buying zeros through a tax-exempt IRA or SEP account. Another caution: The market value of a zero-coupon bond can fluctuate during the period before it matures. If interest rates go up, the market value of a zero will go down. Furthermore, many zero-coupon bonds are not as liquid as other investments so it's best to hold a zero until it matures.

Zero-coupon bonds are issued by corporations, banks, and by federal and local governments. There are also mutual funds which invest only in zeros. The best strategy for buying zero-coupon bonds is to buy them through a tax exempt retirement plan and to hold them until maturity.

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## *How To Sell Your Business (continued)*

should discuss them and explain their value to a potential buyer. Goodwill is responsible 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.


# Four Ways To Prevent Employee Theft

Almost any business – large or small – runs the risk of employee theft or embezzlement. You can, however, significantly reduce that possibility by taking some basic preventive steps.

1. Reduce opportunities for theft by separating key responsibilities. For example, the individual who handles cash receipts should not be responsible for billing customers.
2. Put all accounting control procedures in writing. Be sure that all employees know who has the authority to approve specific transactions.
3. Review internal controls. A thorough review of your accounting and inventory controls will show up possible weaknesses that could be exploited by dishonest employees.
4. Conduct an annual audit. An in-depth formal audit is the best way to identify real or potential problems in the company's accounting and operating systems.

# Tax Tip

**When home construction interest is not deductible.**

This type of policy covers you or your spouse – whomever dies second. Because your joint life expectancy is greater than either of your individual life expectancies, the cost of second-to-die insurance is low, and the proceeds can be used to pay estate taxes.