

FOR EXECUTIVES SEEKING TO BUY, SELL, OR RECAPITALIZE BUSINESSES

## **Taxes & Valuation: Can You Have Your Cake And Eat It Too?**

### What Every Business Owner Needs To Know About Taxes & Valuation

Inevitably, one day the time will come for a business owner to move on. The reason for the exit may be anything from retirement, health problems, burnout, or just taking some chips off the table.

Planning this exit can have a significant impact on how much the business owner takes home from the event. Maximizing the take home requires the business owner to present the business, especially the financial aspect, in the best possible light. Here is where paying attention to accounting details makes a difference.

Businesses typically spend an inordinate amount of time setting up and using accounting practices that reduce the owner's tax liabilities. CPAs use various business ownership structures and techniques to defer/reduce the revenues or accelerate/inflate the expenses to help business reduce its tax burden. The unforeseen side effect of this exercise is that, to a potential acquirer, the profitability of the business may appear much smaller than what it really is. There may also be other after-sale tax consequences attributable to corporate structure and to depreciation. Business intermediaries "add-back" non-business, non-cash expenses and "recast" the financial statements to get a better picture of the finances, but in most cases this is more of a band-aid than a real solution.

Since most businesses trade in multiples of the business's cash flow, the practices utilized to save the business a lot of money may result in an artificially low valuation when the business sells. Does this mean that business owners have to give up all of their tax benefits? Not really!

When it comes to taxes and valuation, there may be ways in which business owners can have their cake and eat it too. With advanced planning, a competent M&A advisor can help mitigate potential adverse affects at sale time. Some aspects of accounting that need to be revisited in preparation for an exit include:

- Business ownership structure
- Aggressive revenue deferrals or expense accelerations
- Burdening the business with personal, family and other unrelated expenses
- Commingling revenues/expenses of related businesses

