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Business Acquisition Advisors

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I came across the following assessment in a newsletter from a private equity group called January Partners in North Carolina. It is worth making business owners and their advisors aware of this sobering assessment, regardless of one's political orientation. Granted, it is based on a worst-case scenario assuming that Congress does nothing to modify or extend some of these programs, but the quote from the Morgan Stanley economist is telling.

Beginning January 1, 2013, a number of tax changes are set to negatively impact the after-tax proceeds business owners will receive from selling their companies:

1. Expiration of Bush capital gains cuts will raise rate from 15% to 20%;
2. ObamaCare surcharge of 3.8% will apply to investment income for individuals earning more than $200K ($250K for couples); and
3. Return of Pease limitation on itemized deductions for high-income taxpayers, adding 1.2 points to capital gains.

But wait: There's more…

4. Dividends will no longer be taxed at capital gains rates. All dividends will be subject to ordinary income tax rates (35% for most business owners)
5. Payroll tax cuts will expire, resetting the rate to 6.2% from the current 4.2%

What's the impact of a sale after year-end?

- 67% increase in tax bill
- 12% reduction in take-home proceeds
- 13% increase in company valuation required just to break even if selling in 2013

No matter what happens on Election Day, these changes could take effect. According to Morgan Stanley's Chief U.S. Economist:

"…given the elevated degree of gridlock in DC and the likelihood that some degree of gridlock will remain no matter what the election outcome (it is mathematically impossible for either party to achieve a filibuster proof majority in the Senate), this is an awful lot to expect during a post-election session of Congress that may last six weeks or so at most."

Please give me a call if I can help you with any questions about this.

Compliments of Rick Taft

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