Legacy Advisors Group

M & A UPDATE®

December 2009 Volume 5, Issue 12

Mike Ertel is a Certified M & A Advisor and a Principal Broker with Legacy Advisors Group, a full-service M & A Advisory firm with an office in Tampa, Florida specializing in representing sellers and buyers of small- to mid-sized companies. Prior to joining Legacy Advisors Group, Mike's business career spanned 30+ years with Fortune 500 and Fortune 1000 Companies, with senior management roles in Marketing, Operations and Logistics. Mike also served as President, COO of a mid-sized Manufacturing company headquartered in Tampa. Mike also holds a BS in Electrical Engineering and an MS in Industrial Administration, both from Purdue.

Let's End the Tax Year Right!

Bart A. Basi, CPA/Attorney at Law
The Center for Financial, Legal & Tax Planning, Inc.

Introduction

Certain tax deductions are set to expire at year's end. Among them are the enhanced Section 179 deduction and bonus depreciation. The decisions you make in these final months of 2009 can have a major impact on your taxes next April. This article will identify some key strategies that should be implemented prior to the end of the year.

Deferring Income

The more taxable income you make in 2009, the more taxes you will pay. Therefore, it is logical to defer any income you can until next year. This is especially true if you or your business will be in a higher tax bracket this year as a result of your tax planning.

For business tax planning, you may want to send out your monthly billing later in the month of December so that any payments are credited and recognized as income in 2010, if you are on the cash method of reporting.

For individuals, if you are to receive a bonus, defer it until next year. (BE CAREFUL – if you have a retirement plan that is based on a percentage of your gross pay for the year, you don't want to reduce your retirement contribution because of your deferred bonus) Finally, you may decide to defer income the more traditional way, by participating in a deferred compensation plan, buying tax deferred treasury securities, or some specific certificates of deposit that allow for deferral of interest income.

Accelerating Deductions

We all hate paying bills, but now is the best time to pay them. Even if you wait to pay them until December 31, you can still deduct them. For business tax planning, buy supplies in December, and stock up for the next few months. In addition, the IRS will allow you to deduct the expense if you have charged the item to a credit card and not paid for it this year as long as you are on the accrual method of reporting. For example, use your company credit card to purchase supplies for January, deduct the expense now, and pay the bill in January.

Individuals, remember to recognize any capital losses that you may have before year end.

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A CASE STUDY

The annual limit on deductible contributions for Health Savings Accounts (HSA) has been adjusted for inflation for 2010. The limit for 2010 for an individual with self-only coverage through a high-deductible health plan (HDHP) has been raised from $3,000 to $3050, while the limit for an individual with family coverage will go from $5,950 to $6,150.

The annual deductible for individual coverage under the HDHP must be at least $1,200 and at least $2,400 for family coverage. The out-of-pocket expenses must also be capped at $5,950 for self-only coverage and $11,900 for family coverage.

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CoverStory

You are allowed to offset capital gains each year with any losses you incurred, and if the loss isn't fully utilized this year, it can be carried forward to offset future gains to the extent of $3,000 per year. Pay your investment expenses early, including any mortgage interest, real estate taxes, and any state and local taxes.

Beefing up Section 179 Deductions

As part of the American Recovery and Reinvestment Act, businesses can still expense up to $250,000 of equipment purchases under section 179 of the Internal Revenue Code. The 2009 Act also continues the threshold phase-out amount to $800,000. This enhanced amount applies to property purchased and placed into service during 2009. The payment of such purchases can be deferred until 2010.

Bonus Depreciation

Bonus depreciation is still in effect this year!!! The bonus amount of the depreciation is now 50% for qualifying property. The provisions of the new law are very similar to the version passed by Congress in 2003 and 2004. Under the new law, equipment must be of original use beginning after December 31, 2007 and before January 1, 2010. Remember, buy new equipment this year and pay for it next year.

Charitable Contributions

Businesses and Individuals can make and deduct charitable contributions. Individuals have large deductible limits, generally around 50% of adjusted gross income. C Corporations are generally limited to 10% of profits. Make an early contribution to your favorite charity. This contribution can include personal property such as clothes and furniture, but remember to keep receipts for future proof of your generosity. Additionally, if the charitable deduction (of noncash items) for the year totals $5,000 or more (including C Corporations) a qualified appraisal must be made and attached to the tax return. Utilizing your credit card can be advantageous here as well, as more charities are accepting credit card donations.

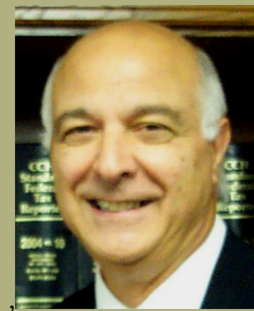
Look for Tax Credits

Tax credits are one of the most beneficial tax planning tools available to many individuals today. They are a dollar for dollar credit applied to your taxes due. Some examples for individuals include the Child Tax Credit, Hope Scholarship Credit, and Lifetime Learning Credit. Also, remember to use up any money set aside in a flexible spending account health plan (otherwise known as a "Cafeteria Plan"). The money left in these funds does not typically carry over to the following year.

Conclusion

Lowering taxable income by deferring income, accelerating deductions, giving to charity, and utilizing tax credits, results in lower tax liability. These methods work not only this year, but also year to year.

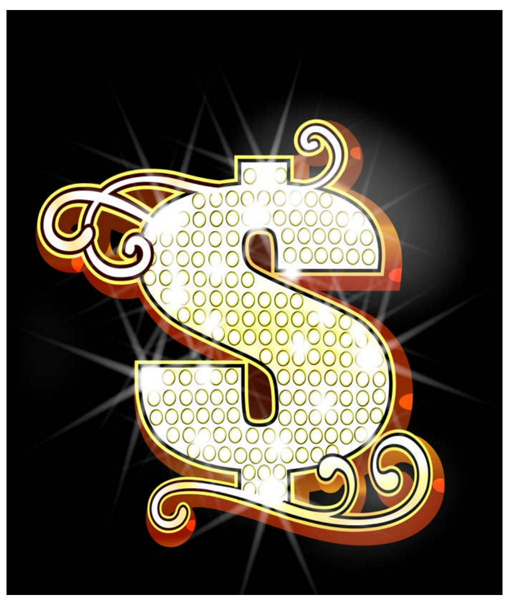
The Center routinely examines tax situations and engages in tax planning, business succession, and estate planning. If you are considering beginning estate planning, keep in mind that you have until December 31 to take advantage of 2009's gift exemption of $13,000. If you need assistance, contact the professionals at The Center.



Dr. Bart A. Basi is an attorney, CPA, and the Senior Advisor of The Center for Financial, Legal & Tax Planning, Inc, a full service company specializing in financial, legal & tax matters. Basi is a nationally recognized author, lecturer, and advisor on how to structure deals to minimize taxes. Tax structure makes the difference between getting the deal done and watching the deal fall apart. Many of you may be familiar with Basi and the topics he covers in the Financial, Legal & Tax Advisory which may be read in various industry-specific trade publications.

A CASE STUDY CONTINUED:

Editor's Comment: Health Savings Accounts can be an affordable alternative for employers providing health care costs. Distributions from these accounts are tax free as long as they are used for qualified medical expenses. The premiums for High Deductible Health Plans are also considerably lower than most health plans. Another benefit is that these plans also provide more overall control for individuals over their health care.



Legacy Advisors Group
1101 Channelside Drive, Suite 290
Tampa, FL 33602-3611

The Center for Financial, Legal & Tax Planning, Inc.
4501 W. DeYoung St., Suite 200
Marion, Illinois 62959

Points of Interest

- **The more taxable income you make in 2009, the more taxes you will pay.**
- **Lowering taxable income by deferring income, accelerating deductions, giving to charity, and utilizing tax credits, results in lower tax liability.**
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Tampa, FL 33602-3611

VALUE DRIVERS TO MAXIMIZE THE SELLING PRICE OF YOUR BUSINESS – PART 3

Mike Ertel, CBI/ M&AMI/ CM&AA

This is the third in a series of articles outlining the steps any business owner can take to maximize the value of his/her business when it comes time to sell. If you'd like to see previous articles in this series, visit our website at www.legacyadvisorsgroup.com. If you'd like a copy of the complete list of value drives, e-mail me directly at mertel@legacyadvisorsgroup.com and request the Value Drivers list.

7. Clean Books & Records

There was a time when buyers and lenders would accept the seller's list of add backs almost regardless of how lengthy or convoluted, so long as they were well documented. Today, buyers and lenders are much more critical and selective, and sellers would be well advised to begin cleaning up their books, records and add backs a couple of years in advance of the date they would ideally like to sell, so the years that will receive the most attention will be reasonably clean.

8. Current AR's, AP's & Inventory

Bottom Line: Buyers will not pay full price for past due receivables, or last season's inventory. All businesses would do better if they kept their receivable, payables and inventory current. If your business has any of these issues, you would do well to convert the out-of-date inventory and receivables to as much cash as possible prior to putting your business on the market.

9. Anticipate & Prepare for Buyer's Due Diligence

Most of my selling clients tell me that the due diligence phase of selling their business was the most nerve racking and upsetting to them, because of the potential of turning up something that might scuttle the whole deal. A good bit of this can be minimized with proper planning. By anticipating what questions the buyer will have and what documents he/she will want to review, and gathering and screening these items in advance, a lot of the suspense and mystery can be minimized/eliminated.

10. For the Right Buyer, Be Prepared to Carry Some Seller Financing

Almost without exception, sellers would prefer to get 100% cash up front when they sell their business. In my experience, however, when a seller insists upon those terms, it tends to make both the buyer and the lender needlessly wary, sometimes to the point of negotiating a deeper discount to the asking price. Even before the financial market meltdown of late last year, many SBA lenders were requiring the seller to carry at least 10% of the purchase price in a seller's note. When you're reasonably confident that you've met the right buyer for your business, you might seriously consider carrying some seller financing as a sure-fire way to lubricate any bank financing. After all, aren't you more likely to come out ahead if you get 100% of your asking price with 90% cash at closing PLUS a 10% seller's note, vs 100% cash at closing but only 90% of your asking price?

To be continued…

If you know of a business owner who's thinking of selling or buying a business and who might benefit from a free, confidential, consultation with us, have them contact me at mertel@legacyadvisorsgroup.com

Legacy Advisors Group
813.299.7862 Direct
mikeertel@legacyadvisorsgroup.com

Legacy Advisors Group
1101 Channelside Drive, Suite 290
Tampa, FL 33602-3611
Phone: 888-864-6610
Fax: 866-353-0382

The Center for Financial, Legal & Tax Planning, Inc.
4501 W. DeYoung St., Suite 200
Marion, Illinois 62959
Phone: 618-997-3436
Fax: 618-997-8370
Satellite Office:
Longboat Key, FL 34228
Phone and Fax: 941-383-3338

We're on the Web!

www.taxplanning.com
www.legacyadvisorsgroup.com

Frequently Asked Questions…

Q: I am looking to have my company valued. What is the best method available to value a company?

A: There is no one method of valuation available that trumps every other method. Under the standards dictating the procedures used in valuation, multiple methods are used. This tends to eliminate built in flaws in each system and using more than one method tends to compliment another.

Q: Since I have had my last valuation done, the value of my business has dropped considerably. Why might this be?

A: This could be due to a variety of factors. Generally, the slower economy coupled with a depreciating asset base will have a tendency to lower business values, sometimes substantially. While closely-held businesses do not act exactly like widely held corporations on major stock exchanges, closely-held business values will fluctuate just like publically held companies.

Q: Does a diminished business value mean it is time to exit a business?

A: Absolutely not, unless exiting at this current point matches your long term interests. Every business owner should have an exit plan consisting of when and under what circumstances they want to exit the business. Right now, lowered business values make this an attractive time to engage in estate and succession planning.