

Five Tax-Efficient Ways to Sell Your Business

*Presented by:
Sean O'Connell, Partner
And Risë Flenner,
Director of Succession
Planning*



WEBINAR

September 8, 2021

Five Tax-Efficient Ways to Sell Your Business

Andrea P. Sardone
Today's Moderator



Today's Presenters



Sean R. O'Connell, CPA/PFS, CGMA
Partner



Risë L. Flenner, CPA/PFS, J.D.
Director of Succession Planning

Today's Agenda

- ✓ The process of selling your business
- ✓ Five tax-efficient ways to sell
- ✓ Tax planning enhancers
- ✓ Minimizing estate tax
- ✓ Review key takeaways



Sean O'Connell Risë Flenner



Polling Question

Which best describes your current situation?

- a) I'm involved with a business that has already sold
- b) We are considering selling in the next few years
- c) We may be more interested in acquiring a business
- d) We have a business, but no current plans to sell
- e) I am just happy to be here



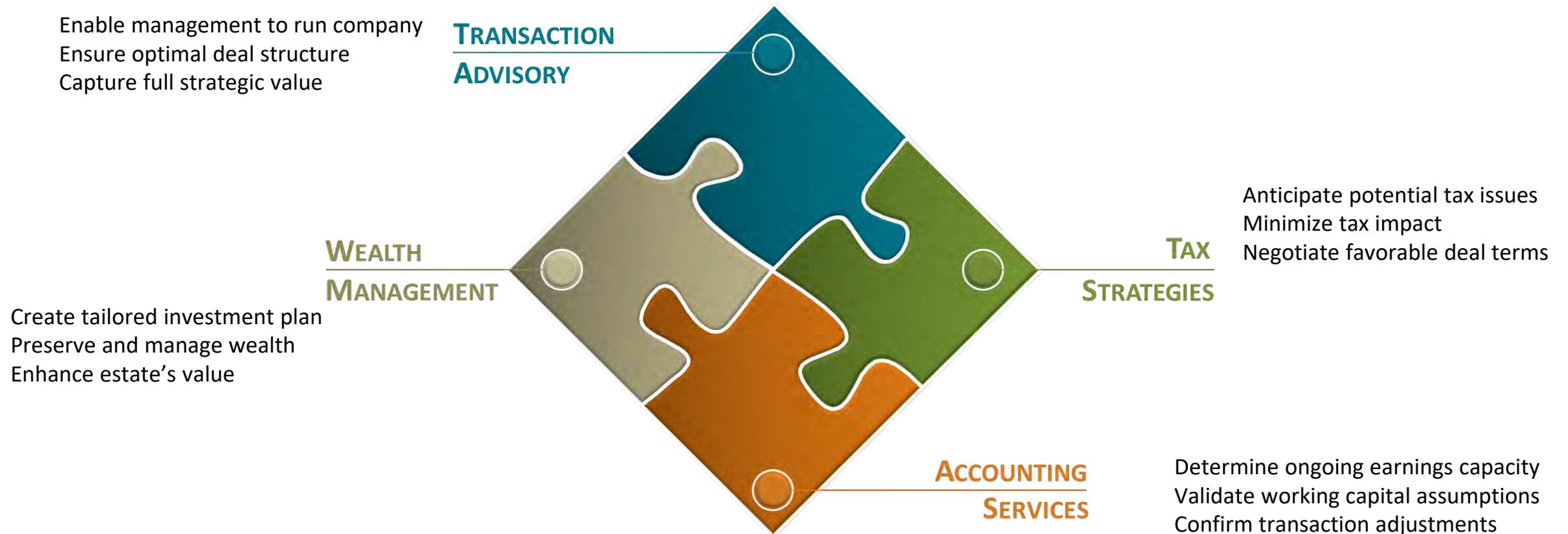
The Process of Selling a Business

- ✓ We provide a comprehensive approach to client engagements by assembling a team of Subject Matter Experts in the following areas:

Sean O'Connell Risë Flenner



The Process of Selling a Business



#1 – Sell Equity



#1 – Sell Equity

SCHEDULE D
(Form 1043)

Capital Gains and Losses

▶ Attach to Form 1040, 1040-SR, or 1040-NR
▶ Go to www.irs.gov/ScheduleD for instructions and the latest information.
▶ Use Form 8949 to list your transactions for lines 1b, 2, 3, 8b, 9, and 10.

OMB No. 1545-0047
2020
Attachment
Sequence No. 12

Department of the Treasury
Internal Revenue Service (IRS)

Name(s) shown on return _____ Your social security number _____

Did you dispose of any investment(s) in a qualified opportunity fund during the tax year? Yes No
If "Yes," attach Form 8949 and see the instructions for additional requirements for reporting your gain or loss.

Part I Short-Term Capital Gains and Losses—Generally Assets Hold One Year or Less (see instructions)

See instructions for how to figure the amounts to enter on the lines below.
This form may be easier to complete if you round off cents to whole dollars.

	(a) Proceeds (sales price)	(b) Cost (or other basis)	(c) Adjustments (gains or loss from Form(s) used, Part I, line 2, column (g))	(d) (Gain or (loss)) Subtract column (b) from column (a) and combine the result with column (c)
1a Totals for all short-term transactions reported on Form 1099-D (for which basis was reported to the IRS and for which you have no adjustments (see instructions)). However, if you choose to report all these transactions on Form 8949, leave this line blank and go to line 1b.				
1b Totals for all transactions reported on Form(s) 8949 with Box A checked.				
2 Totals for all transactions reported on Form(s) 8949 with Box B checked.				
3 Totals for all transactions reported on Form(s) 8949 with Box C checked.				
4 Short-term gain from Form 6252 and short-term gain or (loss) from Forms 4684, 6781, and 8824.				4
5 Net short-term gain or (loss) from partnerships, S corporations, estates, and trusts from Schedule(s) K-1.				5
6 Short-term capital loss carryover. Enter the amount, if any, from line 10 of your Capital Loss Carryover Worksheet in the instructions.				6
7 Net short-term capital gain or (loss). Combine lines 1a through 6 in column (d). If you have any long-term capital gains or losses, go to Part II below. Otherwise, go to Part III on the back.				7

Part II Long-Term Capital Gains and Losses—Generally Assets Hold More Than One Year (see instructions)

See instructions for how to figure the amounts to enter on the lines below.
This form may be easier to complete if you round off cents to whole dollars.

	(a) Proceeds (sales price)	(b) Cost (or other basis)	(c) Adjustments (gains or loss from Form(s) used, Part I, line 2, column (g))	(d) (Gain or (loss)) Subtract column (b) from column (a) and combine the result with column (c)
8a Totals for all long-term transactions reported on Form 1099-D (for which basis was reported to the IRS and for which you have no adjustments (see instructions)). However, if you choose to report all these transactions on Form 8949, leave this line blank and go to line 8b.				
8b Totals for all transactions reported on Form(s) 8949 with Box D checked.				
9 Totals for all transactions reported on Form(s) 8949 with Box E checked.				
10 Totals for all transactions reported on Form(s) 8949 with Box F checked.				
11 Gain from Form 4797, Part I; long-term gain from Forms 2429 and 6252; and long-term gain or (loss) from Forms 4684, 6781, and 8824.				11
12 Net long-term gain or (loss) from partnerships, S corporations, estates, and trusts from Schedule(s) K-1.				12
13 Capital gain distributions. See the instructions.				13
14 Long-term capital loss carryover. Enter the amount, if any, from line 10 of your Capital Loss Carryover Worksheet in the instructions.				14
15 Net long-term capital gain or (loss). Combine lines 8a through 14 in column (d). Then, go to Part III on the back.				15

For Paperwork Reduction Act Notice, see your tax return instructions. Cat. No. 11043B Schedule D (Form 1043) 2020

Sean O'Connell Risë Flenner



#1 – Sell Equity

	Sale of Assets	Sale of Equity
Sales Price	10,000,000	10,000,000
Tax Basis	<u>3,000,000</u>	<u>2,000,000</u>
Gain	<u>7,000,000</u>	<u>8,000,000</u>
Federal tax	2,590,000 (37%)	1,600,000 (20%)
State tax	<u>420,000</u>	<u>540,000</u>
After-tax proceeds	<u>6,999,000</u>	<u>7,860,000</u>

#1 – Sell Equity

- ✓ Sale of S-corporation shares usually not subject to 3.8% Net Investment Income Tax
- ✓ Sale of Qualified Small Business Stock (Section 1202)
- ✓ Sell to ESOP and defer gain (Section 1045)



Sean O'Connell Risë Flenner



#2 – Sell Assets Smartly



#2 – Sell Assets Smartly

Assets Purchased	Scenario 1	Scenario 2
Accounts Receivable	2,500,000	2,500,000
Equipment	3,800,000	2,500,000
Goodwill	<u>3,700,000</u>	<u>5,000,000</u>
Total allocation	<u>10,000,000</u>	<u>10,000,000</u>
Tax Due	3,600,000	2,800,000

#2 – Sell Assets Smartly

- ✓ Section 338(h)(10) Election
(buyer can treat equity purchase as an asset purchase)
- ✓ Tax “True-Up”

Sean O’Connell Risë Flenner



#3 – Sell for Things Other Than Cash



#3 – Sell for Things Other Than Cash

- ✓ Notes (installment sale)
- ✓ Post-closing compensation or consulting fees
- ✓ Stock-for-stock



Sean O'Connell Risë Flenner



#4 – Sell Less Than 100%



Sean O'Connell Risë Flenner



#4 – Sell Less Than 100%

- ✓ Private Equity Groups
- ✓ Lifetime transfers
- ✓ Bequests

Sean O'Connell Risë Flenner



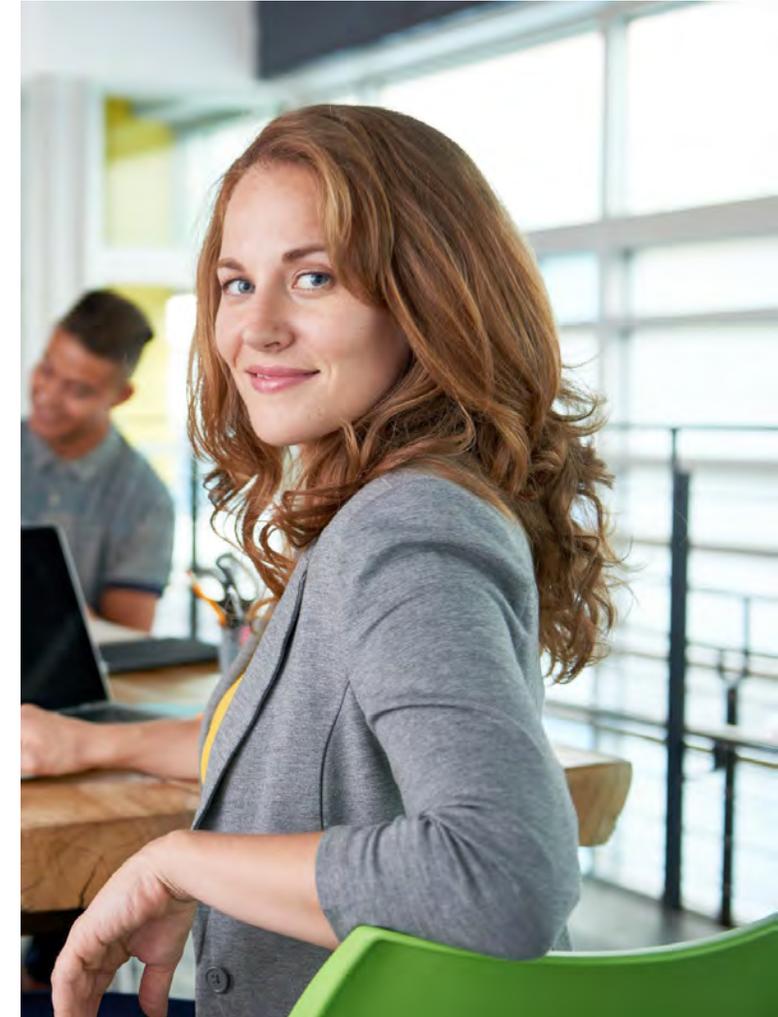
#5 – Sell to Management Team



#5 – Sell to Management Team

- ✓ ESOP
- ✓ Section 1042 deferral
- ✓ Leveraged ESOP
- ✓ S-corporation ESOP

Sean O'Connell Risë Flenner



Questions



Sean O'Connell Risë Flenner



Minimize State Income Tax

- ✓ State of domicile at the time of sale
- ✓ Incomplete gift non-grantor trust (INGT)

Sean O'Connell Risë Flenner



Tax Planning Enhancers

- ✓ Charitable transfers
- ✓ IC-DISC
- ✓ Opportunity Zone Funds



Sean O'Connell Risë Flenner



Estate Freezes

- ✓ U.S. Estate Tax
- ✓ Gifting
- ✓ Installment sale to IDGT – Intentionally Defective Grantor Trust
- ✓ Private annuities

Sean O'Connell Risë Flenner



Estate Freezes

- ✓ GRATs – Grantor Retained Annuity Trust
- ✓ CLATs – Charitable Lead Annuity Trust
- ✓ FLPs – Family Limited Partnerships



Sean O'Connell Risë Flenner



Key Takeaways

- ✓ 5+ ways to structure a deal to reduce income taxes
- ✓ **Deferring** the payment of taxes is also valuable
- ✓ State income taxes should be considered
- ✓ Planning **in advance** of sale creates opportunities for savings
- ✓ Don't lose sight of estate tax exposure
- ✓ Selling a business should involve a **process**



What Makes Us Different?

**Enrique C. Brito, CFA,
CVA, CM&AA**
Managing Director of
Transaction Advisory
Services



**TRANSACTION
ADVISORY**

**Risë L. Flenner,
CPA/PFS, JD, AEP®**
Director of Succession
Planning



**WEALTH
MANAGEMENT**

**TAX
STRATEGIES**



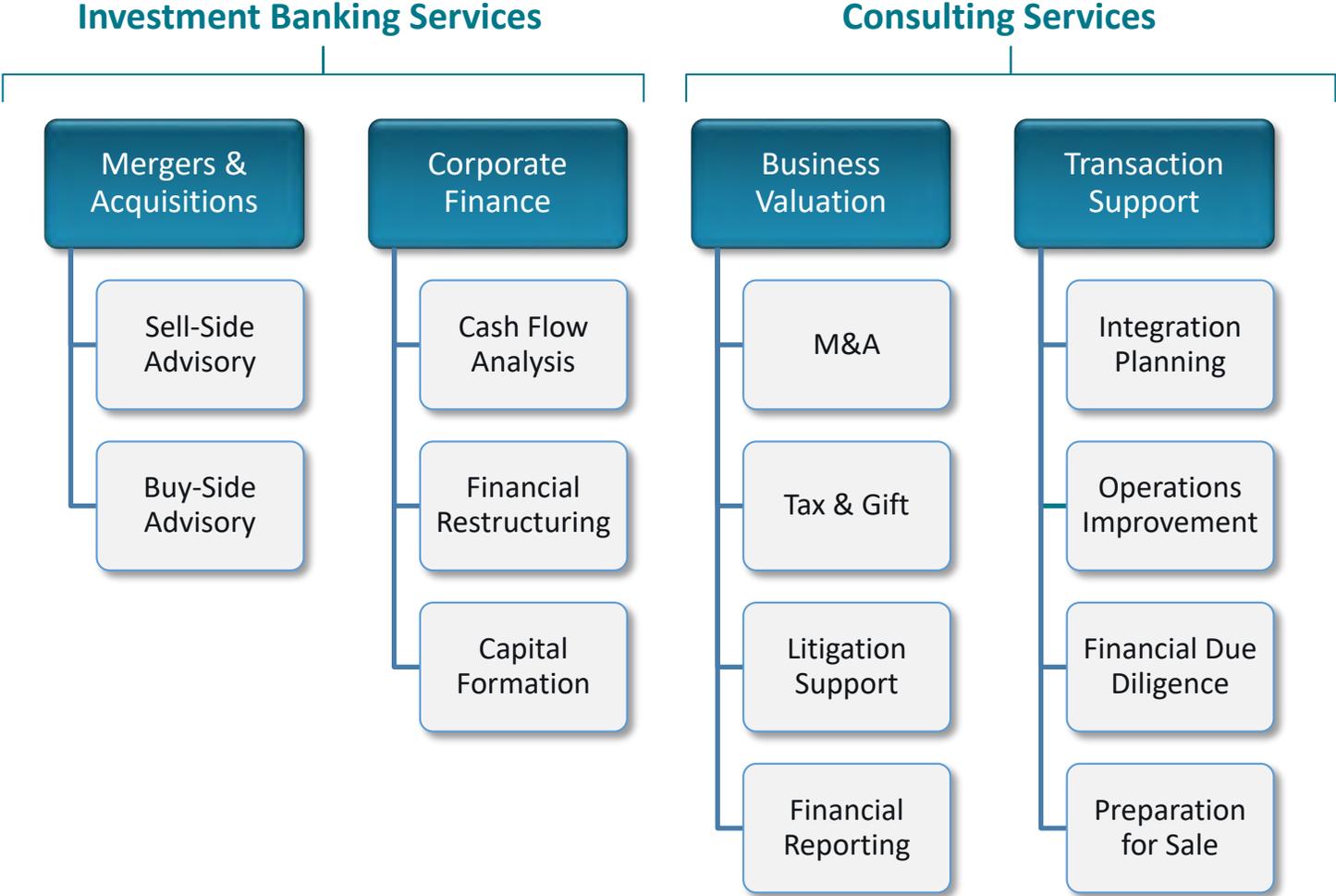
Rob Klingensmith
Partner, Managing Director
of Wealth Management

**ACCOUNTING
SERVICES**



**Bradford Jones, CPA, CVA,
CMA, CFF**
Partner, Pathway Accounting
Services Co-leader

Transaction Advisory Overview



Questions



Sean O’Connell Risë Flenner



Contact Us



Sean R. O'Connell, CPA/PFS, CGMA
Partner

703-364-5220
soconnell@pbmares.com



Risë L. Flenner, CPA/PFS, JD, AEP®
Director of Succession Planning

757-355-6025
rflenner@pbmares.com

Upcoming Webinars

Stealth Weapon: R&D Tax Credits
October 6, 2021

Top 10 Tax Strategies for 2021
November 3, 2021

**Challenges and Opportunities
for Not-for-Profits**
December 1, 2021



www.pbmares.com

Visit: www.pbmares.com/resources/webinar-series

PBMAres
Your Future. Our Focus.

SERVICES INDUSTRIES PEOPLE **RESOURCES** LOCATIONS CONTACT

Webinar Series Home / Resources / Webinar Series

Upcoming Monthly Live Webinars for 2021

Live Webinar
SELLING YOUR BUSINESS

PBMAres

Five Tax-Efficient Ways to Sell Your Business
September 8, 2021 | Noon to 1PM

Selling a business can result in a significant—and costly—burden: taxes. Many times the burden can be minimized with the right education and awareness of the different tax structures that can be leveraged to maximize your return when selling your business. PBMAres' Director of Succession Planning, **Risë Flenner**, will present options for creating a smart tax structure for the sale of your business that could ultimately help you save money. We look forward to having you join us!

REGISTER NOW

Live Webinar
R&D TAX CREDITS

PBMAres

Stealth Weapon: R&D Tax Credits
October 6, 2021 | Noon to 1PM

Tax credits are available to companies of all sizes in a number of industries who have invested time, money and resources in improving their products and processes. Don't miss out on tax credits that you're eligible for. Taking advantage of the specific tax savings opportunities available to you is a smart business strategy. PBMAres' tax experts, **Nicholas Perrine, CPA**, Partner and leader of our Credits & Incentives Team, along with **Grayson Thomas, CPA**, will help you understand more about this stealth weapon in your business strategy.

REGISTER NOW

Live Webinar
TOP 10 TAX STRATEGIES

PBMAres

Top 10 Tax Strategies for 2021
November 3, 2021 | Noon to 1PM

Join PBMAres' Partner and tax expert, **Jeffrey Williams, CPA**, as he covers the ten most practical strategies for 2021 to save you money – if you implement by December 31. We look forward to having you join us!

REGISTER NOW

Live Webinar
NOT-FOR-PROFIT INSIGHTS

PBMAres

Challenges and Opportunities for Not-for-Profits
December 1, 2021 | Noon to 1PM

Partner and Not-for-Profit Team Leader, **Bo Garner**, will share observations and insights on the challenges and opportunities **not-for-profits** face in the year ahead as they fulfill their missions in a changing economic, societal, and technological landscape. Based on direct experience with numerous organizations, Bo will



www.pbmares.com

MARYLAND - Baltimore • Rockville
NORTH CAROLINA - Morehead City • New Bern
VIRGINIA - Fairfax • Fredericksburg • Harrisonburg • Newport News • Norfolk • Richmond
Warrenton • Williamsburg