



Market Update: Is 2012 A Compelling Time to Sell?

By Luke Sage

There has been a lot of discussion about whether completing a transaction in 2012, rather than some time further in the future, may make unique sense. We always advise clients not to focus too much on factors outside of their business, but to focus on the right business reasons to consider a transaction. This article touches on four factors that might make 2012 a compelling time to sell all or a portion of a business.

Private Equity Funds Available for Investment

"Dry powder," as it is termed in the investment banking world, is estimated to be nearly \$1 trillion (as of late 2011, Preqin Ltd. estimated the amount to be \$937 billion). Anecdotally, we've recently observed private equity funds offering aggressive EBITDA multiples for companies due to a combination of a lack of sustained deal flow in the market, and the need to deploy equity capital that they have raised over the past 3-5 years since institutional equity funds typically have a defined life of 7-10 years.

Funds are paid to invest the equity capital they have raised, and cannot raise more until they have deployed a sufficient percentage of capital and had successful liquidity events in existing funds. These factors have created an atmosphere of creative bidding for businesses available for sale.

Capital Gain Tax Rates

The jury is out on how capital gains will be treated from a tax standpoint, but the 15% federal rate expires at the end of this year, along with other so-called "Bush Tax Cuts." At a minimum, the prior rate of 20% will become the new capital gains tax rate if the cuts are allowed to expire at the end of 2012, as scheduled. The impact could be significant given a potential 33.3% increase in capital gains taxes.

Much could change based on the outcome of the November elections, but the debate over how to reduce our ever-burgeoning deficits has caused many elected officials to champion the idea of raising tax rates, or at least letting temporary tax decreases expire.

Medicare Contribution Tax

In 2013, an additional tax of 3.8% will apply to unearned income (a 0.9% Medicare Tax Increase and a new 2.9% surcharge on Investment Income). Investment income (e.g. from capital gains and dividends) is the most common form of unearned income. It is important to discuss this and other tax issues with a

tax professional, but the cost of doing business in the U.S., from a Medicare Tax standpoint, will likely be increasing in 2013.

Other Factors

- Federal Estate and Gift Taxes: Current tax treatment allows for a \$5 million exclusion from the taxation on profits from a company sale, which can be gifted to business owners' family members. Like a lot of other tax considerations, it is unknown exactly how estate and gift taxes will change beginning in 2013.
- The Patient Protection and Affordable Care Act: Commonly referred to as Obamacare, this federal statute, beginning in 2014, requires companies to provide healthcare for their employees once they have crossed the 50 employee threshold.

For more information on when might be the right time for your business to complete a transaction, please contact your CBIZ Tofias advisor, or you may reach us at TheBottomLine@cbiztofias.com and 888.761.8835.

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