

## Acquiring and Selling Business Ownership Interests

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### **Definition:**

Consulting with clients about acquiring and selling business interests is the planning process used to assist them in proposed purchase or sale transactions. We focus on the tax effects to both the buyer and seller, and the related cash flows to the parties.

### **Benefits:**

The benefits to the buyer or seller are similar; informing them as to how much cash, after taxes, they will spend or end up with. The structuring of the transaction can generate material benefits to either party. If we are representing the seller, our primary goal is to recommend a structure to complete the transaction in a fashion minimizing the current tax costs. If we are representing the buyer, our primary goal is to recommend a structure to maximize the future tax benefits.

### **Process:**

- Meet with clients to discuss the proposed transaction, find out their objectives and their reasons for transaction
- Review Federal, State and Local tax filings for the past few years identifying unusual items
- Gather financial information about the clients and the business
- If a structure has been proposed, review the proposal and assess its tax and cash flow consequences
- If a structure has not been proposed, recommend a variety of options comparing their outcomes
- Produce reports and written recommendations
- Point out areas where changes are recommended or needed
- Meet with both parties to determine other party's objectives.

### **Case Example:**

We were hired to assist three doctors acquire interests in a professional service corporation. The corporation had two equal shareholders planning to retire within five to seven years. The current shareholders asked our clients to make a proposal to purchase shares in the corporation, and then buy-out the current shareholders in the future. We met with all parties, accumulated five years of financial information, made observations about trends in the practice economics, and prepared various spreadsheets and memorandums of our findings. We analyzed the tax and cash flow results of the current shareholder agreements calling for stock purchases. We then recommended alternative methods to complete the transaction, including overall practice valuation, stock purchase price for the new shareholders, and a combination stock buy-out and non-qualified deferred compensation plan to retire the current shareholders.