

ASK THE ADVISERS

The views and opinions expressed in "Ask the Advisers" are solely those of Keith Singer.



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Selling Your Company

We have had several clients sell their companies to private equity funds, which have had a strong appetite for purchases recently. It can be a difficult decision to sell all or part of a company you may have spent years creating, operating, and growing.

Private equity funds may offer 6-10 times EBIDA - which stands for "earnings before interest, depreciation, and amortization". For example, if a private equity company can pay \$80 million for a company producing \$10 million of annual earnings, that would provide an annual return to the purchaser/investor of 12.5% per year. Additionally, if the purchaser can use their expertise and access to capital to help grow the newly acquired company, their investment can wind up being substantially more profitable.

Sellers obtain some clear benefits. They can receive a large check, which may represent significant generational wealth for their family. They can also eliminate the risk that someday their business may not be as successful as it used to be. If they want to stop

working while allowing their employees to continue to receive a paycheck, they can.

Another benefit is the sale proceeds would be taxed as a capital gain - not as ordinary income. Potential sellers should keep in mind that after they sell and pay taxes, it will be difficult to generate the same income they were generating from running their business. However, they will no longer be responsible for operating a business. Their new job will be managing their family's wealth. That process should start before any contracts are signed because with the right advance planning, it is possible to reduce taxes from the sale as well as eventual estate taxes.

Although there are strategies available to reduce income and estate taxes on the sale, some of those strategies are only available if you utilize them before the sale is consummated. Therefore, it's always smart to get the best financial and tax advice whether you are selling a company or simply trying to successfully plan for retirement.

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