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Transactions 2008-Sale Strategies**Do the math early for deals**Puget Sound Business Journal (Seattle) - by [Brett Rice](#)

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Today's economic climate makes buying or selling a business infinitely more challenging than it was during more prosperous times. The ever-present tensions between the interests of buyer and seller are exacerbated by a tight lending environment. Understanding where those tensions arise, and how you can use them to your advantage, is key to preparing to sell your business.

Of course, the most obvious tension is the price: The seller wants more than the buyer is willing to pay. But there are ways to structure a deal that can provide tax advantages to one party or the other, making the same bottom line seem more or less attractive.

For example, does "the business" consist of mostly equipment and other tangible assets? If so, the buyer will have the benefit of deducting depreciation more quickly, while the seller has to declare more of the proceeds as ordinary income.

But if part of the purchase price is allocated to intangibles such as goodwill, the seller can report that amount as capital gains, which are taxed at a lower rate. The buyer, on the other hand, delays the depreciation deduction.

Since buyer and seller each file statements with the Internal Revenue Service showing how the purchase price was allocated, it's important that the allocation be part of the pre-sale negotiations. The IRS will notice if the statements don't match.

So, do some rough math ahead of time. You may find you'll net your target amount, even with a lower purchase price, by keeping an eye on the tax liabilities incurred by both parties.

As the seller, are you planning to stay involved with the company for a period of time to ensure a smooth transition? If so, you could consider accepting a lower price today, in exchange for a bonus payment down the road if the company meets certain performance targets. Even though this amount may be bundled into the total purchase price, you could delay paying taxes on it until you actually receive the bonus.

Another area for negotiation is financing. If a potential buyer can't get a loan, are you willing to take a note instead? Such an arrangement puts the seller at risk, so it's important to understand why the buyer can't get financing — is the problem with this particular buyer's credit, or is it one more symptom of the ailing global credit market? Accepting a note has the potential benefit that you collect the interest, at a rate that's potentially higher than a bank deposit. On the other hand, if the buyer defaults, you'll have to take steps to repossess a company that may no longer be in the same condition it was when you sold it.

As with any other term of sale, if you do take a note make sure the interest rate is spelled out. Otherwise, the IRS will impute a rate and tax that portion of the purchase price as ordinary income.

It can be helpful to sit down with your CPA and pencil out some different scenarios as you prepare your business for sale. Formulas for things like depreciation are complex and not at all intuitive.

Remember that "purchase price" is not the only indicator of how much you'll have in your pocket after the expenses of the sale are paid.

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