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Preparing a Business for Sale

How business owners can increase sale value and plan for taxes before going to market

The strongest sale outcomes are prepared well before a buyer appears. The work is not only about increasing the purchase price. It is also about reducing buyer risk, improving the certainty of closing and protecting what the owner keeps after taxes, fees and debt.

Ideally, preparation begins 18 to 36 months before a sale. Even six to twelve months of focused work can improve the business story, diligence readiness and negotiating position. Tax and estate strategies often require action before a letter of intent or binding sale commitment.

Begin with the owner's objectives

Before changing the company or responding to an offer, define what a successful transaction should accomplish. A buyer will focus on price and risk. The owner should focus on price, certainty and the after-tax result.

- Set a target for after-tax proceeds rather than relying only on the headline purchase price.
- Choose a preferred timing, transition period and future role, if any.
- Identify personal liquidity needs, investment goals, estate objectives and family considerations.
- Decide which outcomes matter most, including price, speed, employee continuity, legacy, rollover upside and certainty of closing.
- Coordinate the M&A attorney, transaction tax CPA, wealth advisor and transaction professional before negotiations begin.

Increase transferable business value

Buyers pay more when earnings are credible, growth is understandable and the company can perform without the owner. The most valuable improvements are those a buyer can verify and carry forward.

Improve financial reporting: Produce timely monthly statements, reconcile accounts and document accounting policies. Separate personal and nonrecurring expenses, and support every proposed earnings adjustment with clear records.

Reduce dependence on the owner: Delegate customer, vendor and operating relationships. Document decision rights and develop managers who can run the company without the owner's daily involvement.

Address concentration risk: Reduce dependence on a small number of customers, suppliers, employees or sales channels. Where concentration remains, strengthen contracts, tenure and renewal visibility.

Make revenue more predictable: Improve recurring or repeat revenue, backlog quality, retention data, contract terms and pipeline reporting. Durable cash flow is more valuable than an unsupported forecast.

Protect the company's key assets: Confirm ownership of intellectual property, trade names, data, designs and customer information. Review important contracts for transfer and change-of-control restrictions.

Show disciplined operations: Track a focused set of operating measures, maintain equipment, manage inventory and resolve quality, safety, cybersecurity and regulatory gaps.

Present a credible growth plan: Identify the next growth initiatives, the investment required, the responsible leaders and the evidence supporting each forecast.

Prepare for buyer due diligence

Diligence should confirm the company's value story rather than introduce surprises. Assemble a clean, indexed data room and correct discrepancies before going to market.

Financial information

- Three to five years of financial statements and tax returns
- Monthly results, budgets and forecasts
- Revenue and margin by customer, product or service line
- Working capital, debt, capital spending and normalized earnings adjustments

Commercial information

- Customer and supplier concentration
- Material contracts, backlog and renewal terms
- Retention, churn, pricing and sales pipeline data
- Market position and evidence supporting the growth plan

Legal ownership and people

- Entity records, ownership schedule and shareholder agreements
- Material contracts, litigation, licenses, permits and insurance
- Organization chart, compensation, benefits and employment agreements
- Key-person retention risks and management succession coverage

Operations assets and intellectual property

- Facilities, leases, equipment, maintenance and inventory records
- Quality, safety, environmental, information technology and cybersecurity records
- Patents, trademarks, domains, software, designs and confidentiality agreements
- Proof that the company owns work created by employees and contractors

Important: Resolve issues and disclose them appropriately. A well-managed problem is usually less damaging than a surprise discovered by the buyer.

Set transaction priorities before the letter of intent

The economic and tax terms of a sale are connected. Once a letter of intent is signed, negotiating leverage often shifts. Model the alternatives and identify the owner's priorities before agreeing to structure or price.

- **Asset sale or equity sale:** Tax character, assumed liabilities, required consents and the buyer's tax basis can differ materially.

- **Purchase price allocation:** In applicable asset acquisitions, buyer and seller generally report how consideration is allocated among asset classes on IRS Form 8594. Allocation affects the seller's character of gain and the buyer's tax basis.
- **Form of payment:** Compare cash at closing, seller financing, earnouts, escrows, holdbacks and rollover equity for liquidity, risk and tax timing.
- **Working capital and debt:** Define the target, calculation method, cash and debt treatment and true-up process before final documentation.
- **Employment and consulting payments:** Compensation and noncompete payments may be taxed differently from sale proceeds and should be reviewed before terms are fixed.
- **Post-closing exposure:** Understand indemnities, representations, escrows and the period during which sale proceeds remain at risk.

Evaluate tax planning early

There is no universal tax structure. The result depends on entity type, tax basis, asset mix, state exposure, buyer terms and the owner's objectives. The following are planning questions to review with qualified advisors before a binding commitment.

- **Entity basis and asset review:** Confirm tax basis, ownership history, prior elections, depreciation, net operating losses, built-in gain exposure and state filing positions. Identify which proceeds may be capital gain, ordinary income or depreciation recapture.
- **Qualified Small Business Stock:** Determine whether qualifying C corporation stock was acquired at original issuance, has been held for more than five years and satisfies the other requirements of Section 1202.
- **Installment sale:** Receiving at least one payment after the year of sale may defer recognition of eligible gain. Inventory, depreciation recapture, interest rules, credit risk and liquidity needs can limit the benefit.
- **Charitable planning:** An owner with genuine charitable intent may consider contributing an ownership interest before the sale is legally fixed. Valuation, substantiation, control and assignment-of-income rules require specialized counsel.
- **Employee ownership:** For a suitable company, an ESOP transaction may support succession and employee continuity. In limited qualifying cases, Section 1042 may permit tax deferral, but feasibility, leverage and fiduciary requirements require experienced advisors.
- **Business real estate:** If real property is owned separately or sold with the company, evaluate whether a Section 1031 exchange is available. Current federal rules limit Section 1031 to qualifying real property.
- **Estate and gift planning:** Transfers completed well before a sale is effectively committed may move future appreciation and support family or philanthropic goals. Valuation, control and income-tax consequences must be reviewed first.
- **State and local tax:** Model residency, business location, apportionment, entity-level taxes and withholding. Last-minute moves or restructurings rarely work without genuine facts, sufficient time and careful compliance.

Model what the owner will keep

Compare offers on an after-tax, risk-adjusted basis. A lower headline price can sometimes produce a better result when the structure, tax character and certainty are superior.

- **Gross consideration:** Separate cash, seller notes, earnouts and rollover equity.

- **Transaction deductions:** Subtract debt, fees, working capital adjustments and amounts held in escrow.
- **Tax character:** Estimate capital gain, ordinary income and depreciation recapture.
- **Tax timing:** Compare closing-year tax with deferred recognition and the additional risks that accompany deferral.
- **Federal and state tax:** Calculate estimated liability under each realistic structure.
- **Post-closing resources:** Confirm that net cash, retained equity and future obligations support the owner's personal plan.

A practical preparation timeline

18 to 36 months before market: Build management depth, improve reporting, reduce concentration risk and review entity, basis, QSBS, estate and ownership planning.

12 to 18 months before market: Run a valuation and value-gap analysis, test earnings quality, resolve legal and operational issues and begin after-tax scenario modeling.

6 to 12 months before market: Complete the data room, refine the growth story, review working capital, identify likely buyers and set transaction priorities.

Before signing a letter of intent: Compare asset and equity structures, allocations and forms of consideration. Complete any valid pre-sale charitable or estate actions and define tax and legal negotiating points.

From letter of intent through closing: Manage diligence, financing and definitive documents. Update tax estimates and confirm allocation, withholding, reporting and the transition plan.

After closing: Fund estimated taxes, administer escrows and earnouts, implement investment and estate plans and retain transaction records for required filings.

Owner readiness checklist

- I know my target after-tax proceeds and preferred timing.
- The company produces accurate, timely monthly financial statements.
- Normalized earnings adjustments are documented and supportable.
- Customer, supplier and key-person risks are understood and being managed.
- The management team can operate the company without my daily involvement.
- Key contracts, licenses, intellectual property and employment documents are current and transferable.
- Material legal, tax, compliance, cybersecurity and environmental issues have been reviewed.
- A buyer-ready data room is substantially complete.
- I have compared asset and equity sale scenarios and purchase price allocations.
- I have evaluated the tax and estate planning questions that may apply to my situation.
- My attorney, CPA, wealth advisor and transaction team are coordinated.
- I have a written plan for the transition and for investing the net proceeds.

A useful first step

Complete a confidential readiness review that answers three questions: What is the company worth today? What would increase that value before a sale? What would the owner keep under realistic transaction and tax scenarios?

Zenith Capital helps business owners coordinate the business, transaction and personal planning decisions that determine what they keep after a sale. zenithcapitalus.com

Sources

- U.S. Small Business Administration Sell your business
- IRS Form 8594 Asset Acquisition Statement
- IRS Instructions for Form 8594
- IRS Topic 705 Installment Sales
- IRS Publication 537 Installment Sales
- IRS Schedule D instructions Section 1202
- IRS Publication 526 Charitable Contributions
- IRS Like kind exchanges for real estate

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