

Economy, capital gains tax affects timing of business sales

BY MORGAN CHILSON | CONTRIBUTING WRITER



Tim Skarda

“For sale” signs may dot more Kansas City-area businesses during the next decade as baby boomers turn in their suits for more casual retirement attire.

But area experts said they don't expect the business market to see a flood of properties for sale and reduced valuations.

Tim Skarda, owner of Leawood-based business brokerage Allied Business Group, said that he has seen a small surge of baby boomer businesses for sale but that he doesn't think the issue is significant right now.

“Some people have said: ‘Rush to the market. You've got to sell it now because when the rush of supply comes on the market, that will negatively affect value,’” Skarda said. “I don't buy that. We've never really seen that scenario, and demand has always exceeded supply. There are always lots and lots of good buyers out there looking for good companies to buy.”

In addition, it is only the upper end of the boomers — considered anyone born from 1946 to 1964 — who are at retirement age.

“The younger end of the boomers are the buyers,” Skarda said. “That is probably the reason we have a good supply of buyers now.”

Although Skarda and others said they aren't worried about the business market being flooded by baby boomers, they said the economy and potential capital gains tax increases during the next few years are

changing the landscape.

“I think you have a lot of people who would like to sell their businesses that are very fearful of the current economic environment,” said Terry Christenberry, a partner at Christenberry Collect & Co. Inc., an independent investment banking firm in Kansas City.

Economic Ups and Downs

Businesses particularly affected by gas or food prices, for instance, may not sell well at this time, said Michael VanDyke, corporate partner who works with mergers and acquisitions at law firm Sonnenschein Nath & Rosenthal LLP in Kansas City.

“The problem for businesses is that past performance is not necessarily going to be indicative of what the future is,” he said.

Skarda said that the economy may affect the value of a business in as much as it affects the business's performance. Business owners who have seen a few tough years with decreased profits and revenue may want to wait to sell, he said. But even business owners treading water but maintaining healthy companies may still do all right in the current market.

Another factor affecting valuation is the ability to borrow money.

“Banks have pulled back their reins,” Skarda said. “They're not lending as aggressively as they were a few years ago. But, with that said, there are still banks out there for transactions.

“You hear about it on the Wall Street news that the big mega deals can't get done because these big mega banks have completely pulled their deals in. There's

not as dramatic of a change in the smaller deals. For most of the audience of the Kansas City Business Journal, there are banks out there, and they are willing to spend money.”

Taxing Issues

One of the biggest ifs on the horizon is the capital gains tax rate. In 2003, the rate was lowered to 15 percent from 20 percent. The lower rate is set to expire in 2010. Many agree that Congress probably will push it up, most likely as early as 2009.

Capital gains taxes affect the net of a business sale, and if they go as high as 25 percent after the first of next year, they could take a huge bite out of profits.

“Nobody knows,” said Joe Warner, certified business manager at Sunbelt Business Advisors. “But nobody — no matter what party they believe is going to be in office — believes the capital gains rate will stay at 15 percent. It's definitely not going to go lower. From everything I've read, whether we have McCain or Obama in the Oval Office, with likely Democratic control of Congress, I think we're going to see capital gains go up to 25 percent.”

That, he said, is a significant increase, which may affect decisions to sell businesses. On a \$950,000 gain, a seller would pay \$142,500 at 15 percent and \$237,500 at 25 percent, Warner said.

“If I could tell business owners one thing, it would simply be if you have any thought of selling in the next few years, talk to somebody and get the ball rolling and try to do it now,” Warner said.

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