



WHY 2012 IS THE BEST YEAR TO SELL YOUR BUSINESS
How Business Owners Will Be Squeezed For Additional Taxes



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Big Tax Changes Coming

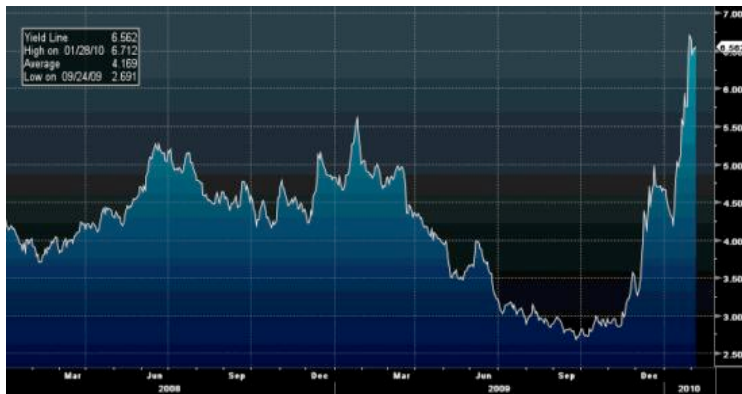
IBMS (It's the Bond Market Stupid)

In the past when looking down the barrel of the expiration of tax cuts and allowable deductions, Congress has blinked by putting forth several Acts that were signed into law. As a result, the Bush tax cuts and other measures have been extended through 2012. Thereafter changes will take place that will increase both your personal and business tax liabilities. In addition, waiting beyond 2012 to sell your business will result in a 5% rise in federal long term capital gains. Based on past performance it might be easy to believe that Congress would again take action to further extend the current tax rates and deductions.

Take a moment to rise above the stream of news dominating the airwaves such as "Occupy (insert location)", Super Committee grandstanding and other political messages, you'll clearly see the writing on the wall, the United States is broke and the ongoing trend from here has to be spending cuts and tax increases. The recent news of the failure for the Super Committee members to reach an agreement on deficit reduction now forces automatic cuts of around \$1 trillion over ten years which is just a gnat biting an elephant. Even a \$10 trillion cut over ten years still leaves the United States with deficits of a few hundred billion every single year.



All the posturing by the White House, Congress and protestors combined could not possibly trump the power of the bond market. Many have been humbled by its reign, none more prominently than the leaders of the European Union (EU). When it becomes very expensive to roll over old debt (i.e. 2 year old loan is now due) and to borrow yet more money on top of that, it eventually becomes impossible to pay. Along the way much effort is made by cutting government spending and raising taxes (i.e. “austerity measures) which is clearly on display in Greece, Italy and soon spreading to Spain and Portugal. France, UK and yes eventually the United States will have their turn too. Once the luster of buying the dollar and US debt wears off because the EU has no where to go but up the bond market will turn towards the USA and demand higher compensation (higher interest rates) to own its still rising debt.



The chart to the left is a Greek 5 Yr bond chart. You can see the the initial rise in interest rates then a “Greece is saved” cooling period only to rapidly rise again when austerity measures have failed.

The chart to the right for Italy also shows interest rates rising rapidly. Italy is now being forced to cut spending and raise revenues.



At some point in the future, these charts could just as well be the same for the United States.

We feel its a fairly safe presumption that the United States will eventually have to cut spending and raise taxes and that will begin in 2013.

Tax Changes Impacting the Sale of Your Business

In 2013 the sale of a \$20 million dollar company will result in paying an additional \$1,000,000 in long term capital gains taxes.

Capital Gains Tax Scheduled Changes

In 2013 the long term capital gains tax rate will increase to 20% in addition to a 3.8% (Medicare Tax) on unearned income. Unearned income is defined as interest, dividends, capital gains, annuities, royalties and rents. The Medicare Tax does not come into play when selling your business but it does apply to the dividends/ disbursements that flow to your personal taxes. More details on this tax and the .09% Medicare tax increase on earned w2 income are described below. *In 2014 its anticipated that long term capital gains taxes will increase again to further align with historical averages.

YEAR	LONG TERM CAP GAINS RATE
2012	15%
2013	20%
2014*	23%



To learn more about how tax law changes will impact you please consult with your accountant or do not hesitate to speak with one of our advisors.

Section 179 Deductions

The Section 179 deduction limit for 2011 was \$500,000 with a \$2 million overall property value limit that also included a 100% bonus depreciation. This was scheduled to go down in 2012 to \$25,000 for the deduction limit and \$200,000 for the overall property value limit. However, the passing of the *Tax Relief, Unemployment Insurance*

Reauthorization, Job Creation Act' in December 2010, increased the Section 179 deduction limit for 2012 to \$125,000 and the overall property value limit for 2012 will be \$500,000.

YEAR PURCHASED	SECTION 179 LIMITS	CAP OF QUALIFIED EXPENSES	BONUS DEPRECIATION
2010	\$500,000	\$2,000,000	In Service Prior to Sep 8, 2010 = 50%
2011	\$500,000	\$2,000,000	In Service from Sep 9, 2010 to Dec 31, 2011 = 100%
2012	\$125,000	\$500,000	50%
2013	\$25,000	\$200,000	0%

Decreases in Section 179 deductions and the elimination in 2013 of the bonus depreciation will result in higher taxes as well as lower business valuations from buyers. Companies who consistently purchase new equipment each year out of necessity will be especially hard hit.

Keep in mind when selling assets your adjusted tax basis is generally your original cost for the property, plus the cost of any improvements or additions, and minus any depreciation you claimed or casualty losses you've deducted. If you took advantage of the Section 179 accelerated depreciation over the past two years and you sell those assets for face value you will have to pay taxes on the difference of the depreciated amount and fair market value.

2010 Equipment Purchase

Cost of Equipment: \$1,000,000
 Section 179 Deduction: \$500,000
 100% Bonus Depreciation: \$500,000
 Total First Year Deduction \$1,000,000

Tax Changes At Personal Level

Income Tax Bracket Changes 2012 vs 2013

2013 TAX RATE*	SINGLE	MARRIED JOINT	HEAD OF HOUSE
10%	Eliminated	Eliminated	Eliminated
15%	Up to \$34,900	Up to \$69,800	Up to \$46,750
25%	\$34,901 - \$84,500	\$69,801 - \$140,850	\$46,751 - \$120,700
28%	\$84,501 - \$195,950	\$140,851 - \$237,700	\$120,701 - \$216,800
36%	\$195,951 - \$383,350	\$237,701 - \$383,350	\$216,801 - \$383,350
39.6%	Over \$383,350	Over \$383,350	Over \$383,350

* The extended Bush tax cuts expire end of 2012 - Above brackets proposed if the Bush tax cuts were not extended

2012 TAX RATE	SINGLE	MARRIED JOINT	HEAD OF HOUSE
10%	Up to \$8,700	Up to \$17,400	Up to \$12,400
15%	\$8,701 - \$35,350	\$17,001 - \$69,000	\$12,151 - \$47,350
25%	\$35,351 - \$85,650	\$69,001 - \$139,350	\$47,351 - \$122,300
28%	\$85,651 - \$178,650	\$139,351 - \$212,300	\$122,300 - \$198,050
33%	\$178,651 - \$388,350	\$212,301 - \$379,150	\$198,051 - \$388,350
35%	Over \$388,350	Over \$388,350	Over \$388,350

SINGLE ANNUAL PAY	2012 TAXES	2013 TAXES	DIFFERENCE
\$174,400	\$48,720	\$48,720	\$0
\$175,000	\$57,750	\$49,000	-\$8,750
\$195,950	\$64,664	\$54,866	-\$9,798
\$200,000	\$66,000	\$72,000	+ \$6,000
\$300,000	\$99,000	\$108,000	+ \$9,000
\$400,000	\$140,000	\$158,400	+ \$18,400

MARRIED JOINT ANNUAL PAY	2012 TAXES	2013 TAXES	DIFFERENCE
\$175,000	\$49,000	\$49,000	\$0
\$225,000	\$74,250	\$63,000	-\$11,250
\$237,000	\$78,210	\$66,360	-\$11,850
\$300,000	\$99,000	\$108,000	+\$9,000
\$383,000	\$134,050	\$137,880	+\$3,830
\$400,000	\$140,000	\$158,400	+\$18,400

The 2013 tax bracket above has not been adjusted for inflation. The numbers shown are exactly how the brackets would have looked for the year 2012 had Congress not extended the Bush tax cuts through 12/31/2012. If your customary historical income as an individual falls near \$200,000 or near \$250,000 you can recognize tax savings on the charts above by staying under key thresholds that do not bump you up to the new higher tax brackets. In 2012 pay attention for the release of details on the final tax bracket income ranges for 2013 and adjust accordingly.

FICA

Social Security Changes

In 2011 the social security tax rate for employee wages was 4.2% on income up to \$106,800. For 2012 the social security tax rate returns back to 6.2% on income up to \$110,100.

YEAR	W2 INCOME	FICA TAXES PAID
2011	\$110,000	\$6,034.20
2012	\$110,000	\$8,415.00

In 2012 if you pay yourself \$110,000 in salary you will pay an extra **\$198.40** per month in taxes. If you max out your annual 401k contribution you may offset a tiny amount of this by taking advantage of the \$500 increase in allowable pretax contribution. (\$16,500 to \$17,000). Additionally, if married filing jointly you can now contribute to your Roth IRA as long as income does not exceed \$183,000 vs \$179,000 in 2011.

Medicare Payroll Tax Changes

The Medicare rate of 2.90% in which employees contribute 1.45% and employers contribute 1.45% remains the same through 2012. In 2013 individuals earning more than \$200,000 and married filing jointly earning more than \$250,000 will see their Medicare rate increase to **1.54%**.

AMT (Alternative Minimum Tax)

Temporary patch done on the Alternative Minimum Tax is also set to expire in 2013, which means more people (including those with high capital gains) will pay more tax. The AMT was created by the IRS to make sure high-income earners pay at least some minimum amount of tax, regardless of credits, deductions and exemptions.

Marriage Tax Penalty

This tax penalty is scheduled to return in 2013. The penalty comes into play when a married couple who earn nearly equal amounts in salary end up paying nearly double in taxes as opposed to being not married and filing as individuals.

Other Changes in Taxes & Deductions

As you can imagine, it is not always simple when it comes to the government, in addition to the details above there are many other modifications, for example deductions for unreimbursed medical expenses will decline, as well as child credits and more. Therefore as always, be sure to work with professionals so there are no surprises that sneak up on you.

About iMerge Advisors

iMerge is a Seattle Washington based m&a advisory firm, with over four decades of combined transactional expertise. The firm's practice areas focus are small to mid market companies that are both growing and profitable with annual revenues exceeding \$2 million. To learn more about our services and to receive a confidential, complimentary consultation, do not hesitate to [contact us](#) today.