

Sell your ATM-related business now or pay more taxes later...

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As the old saying goes, only two things are certain: death and taxes. And one thing is for sure about tax rates right now: they will almost certainly go up – perhaps significantly – during our lifetimes. Like it or not, our country's debt has skyrocketed over the past 10 years to pay for large tax cuts and other initiatives, and we currently owe others more than \$13 trillion (approximately \$120,000 per taxpayer). The Bush Administration's temporary tax cuts signed into law in 2001 are scheduled to expire on December 31, 2010.

What does this actually mean for small business owners, including those who own businesses in or related to the ATM industry? If the cuts do expire as planned, federal capital gains taxes will likely rise from 15% back to 20% – an increase of 33%, plus whatever changes are made by individual states, if any. Based on these assumptions and provided that state level capital gains taxes do not increase, selling a \$5 million business (one that is entirely eligible for capital gains treatment) before December 31 of this year would save you \$250,000 in capital gains taxes compared to selling the same business one day later, on January 1, 2011.

In addition, federal ordinary income taxes (assuming that all of the Bush tax cuts expire and you stay in the same tax bracket next year) are likely to increase by 9.1% to 13.1%, depending on your marginal tax bracket. That means, if you keep running your business next year and the tax cuts expire as planned, you will need to find a way to grow your profits fairly significantly just to match your take home income from this year. This article is not meant to be interpreted in any way as tax advice, so consult your tax and financial advisor to better understand the implications of your specific tax situation. And this article is also certainly not meant to suggest that you should sell your business if you're not interested or truly ready.

Sure, the uncertainty over reduced interchange rates and expanded legislative and regulatory reforms makes some segments within the ATM industry less compelling to some buyers than in the past, and many sellers feel that they should therefore wait out the storm. But, candidly, it's too late and those issues will never go away. In addition, interest rates – which determine the cost of your vault cash and the cost a buyer will incur to borrow money to purchase your company – will increase significantly from current levels, perhaps very soon and very rapidly. So the strategy of waiting out the storm could result in even lower valuations, plus significantly higher taxes.

Therefore, all small business owners, including those in or related to the ATM industry, that are considering selling their businesses during the next year or two should absolutely be aware that there will very likely be a significant tax advantage to selling in 2010 versus later. And it's important to understand that a sale of a business often takes approximately six months to complete, which means you need to start the process immediately to hopefully have enough time to complete the sale by the end of the year. It's critical to get help from an experienced professional who has already successfully sold – not just tried to sell – dozens of companies in the ATM industry before so that you don't waste several precious months educating them on the intricacies of the ATM industry and how to maximize value of your business.

Given the nation's messy balance sheet, and the fact that taxes are very close to the lowest they have ever been since the introduction of the tax bracket system in 1913, it would be a smart bet to assume that taxes will only go higher from here. So it would be equally smart to plan accordingly in order to minimize your tax liability on a potentially very large capital gain from selling your most valuable assets (your business). This will likely be the last chance to take advantage of the lowest tax rates of our lifetimes.

Sam M. Ditzion is the CEO of Tremont Capital Group, a leading consulting firm that specializes in providing expert valuation, merger and acquisition advisory, and strategic planning services to the ATM industry. To learn more about the services provided by Tremont Capital Group, please visit www.tremontcapitalgroup.com or call 617 482 8866.