

Buying a business: More than just the sale price

If you thought reaching an agreement on price was difficult, wait until you get to the fine details of buying or selling a business.

So you've reached an agreement on price. But, there are differences between the parties on how the sale price should be apportioned across different assets.

A solution that's sometimes proposed is to simply show the sale price on the contract and let both sides manage their own apportionment but this depends on what assets you are buying. Try and avoid this trap.

In a typical business you might be buying plant and equipment, goodwill and stock. These assets will have different tax treatments and this is why there are differences between the way a vendor and buyer wish to allocate the price.

The goodwill is a capital asset. The vendor will calculate a capital gain or loss on the sale of the business. Even with a capital gain they may be able to reduce the tax to nil using the CGT small business concessions. For the purchaser, there is no tax deduction on the purchase of goodwill; it becomes a capital asset and a tax offset will only be available if and when the business is later disposed of.

The plant and equipment is also a capital asset. The vendor will account for their tax position on these assets based on their written down value. Where the assets have been substantially depreciated there will be more of an income adjustment. For the purchaser, the plant is normally a depreciable asset and will be written off over its effective life. So, you get a tax write-off but it takes time.

The stock is on revenue account. For the vendor, they will account for the stock in their assessable income in the year of sale. For the purchaser, the stock is deductible as it is sold.

With this mix the tendency is for vendors to want to push more of the sale price into the goodwill as it will create a better tax outcome for them. Purchasers will want to take full value in the stock and plant as this will give a faster tax write-off. For the purchaser, this may be about timing of the tax benefit; over time it may equalise, although there are circumstances where tax benefits can be lost.

Try to avoid the position where the contract is silent on the apportionment of the price and both parties make up their own minds. The Tax Office has a strong data matching capability and where they detect a difference between how the price was accounted for by the parties this is likely to trigger further investigation. The price should be apportioned on a fair market value basis and the ATO does have the power to allocate price where they believe there has been an artificial apportionment to achieve a tax benefit.

While they can do this even where the contract shows the apportionment, they are less likely to take this step where the parties are dealing at arms-length.

So, it's worth working through an agreement on price. It could save some later tax headaches.

'As seen on TV'

TV Appearance - Property Tax Specialists' Shukri Barbara was recently interviewed on Business show 'Your Money Your Call' by host Chris Gray of Empire on Sky News on Friday 3rd June 2011. To see the interview click here

<http://www.youtube.com/playlist?list=PL38076F7578DB0014&hl=en&gl=US>

Avoid delays - Lodge early – Tax Refunds Sooner

Most property investors are negatively geared. This means that where they have not requested a variation of their PAYG deduction from their employer, they get refunds on lodging their tax returns at the end of the financial year.

ATO is now processing lodgement of returns very fast, particularly where there is a refund and the refund is being deposited electronically into the taxpayer's bank account. Some refund assessments are issuing within 7 working days.

Tax Tip - To get refunds lodge your tax return soon. *Property Tax Specialists* can help facilitate the process and minimise time and cost with their checklists and templates. Contact Shukri on Shukri@propertytaxspecialists.com.au

Where are You Now? Where would you like to be? Call if you want to chat ... We look forward to being of Service

Please do not hesitate to contact us if you would like to review & discuss your current property & tax situation, your asset protection strategy, structuring your next investment property, planning to legally minimise your tax position or just to prepare your next tax return.

We look forward to being of service. We also look forward to your referrals.

To improve our service we welcome all constructive comments on this newsletter and other materials.

For help contact **Shukri Barbara** at Property Tax Specialists at Shukri@propertytaxspecialists.com.au

Checklists and Templates

To make the compilation & reporting task for 2011 tax returns easier, clients of **Property Tax Specialists** received checklists and templates to facilitate the process ... **saving them time and money ... the 'write' way is having clear documentation.** ATO way means time/money wastage with audit investigation.

Disclaimer

The material and contents provided in this publication are informative in nature only. It is not intended to be advice and you should not act specifically on the basis of this information alone. If expert assistance is required, professional advice should be obtained.

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Barbara & co – Property Tax Specialists is a member of the Knowledge Shop and Hayes Knight Network

Kind Regards
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