

MANUFACTURING

POSSIBILITIES



inside

Dust Off the Expansion Plans*Three Tax Incentives Make Now an Attractive Time to Invest in Your Company***OVERVIEW**

The Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 includes incentives designed to jumpstart spending and free up cash for businesses. This article takes a closer look at three provisions that could benefit companies.

During the recent economic downturn, you may have been forced to put off making investments in your manufacturing company. With the passage of the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act late last year, it may be worth your while to revisit your expansion plans.

The Tax Relief act includes incentives designed to jumpstart spending and free up cash for businesses. Let's take a closer look at three provisions that could benefit your company.

Bonus Depreciation

If you need new equipment or office furniture, buying it now can provide a sizable tax break. Typically, you must spread deductions for your asset purchases over several years, but if you buy and begin using a qualified asset by the end of 2011, bonus depreciation will allow you to deduct 100 percent of the cost on your 2011 tax return. If you buy and begin using the asset in 2012, you can deduct 50 percent of the expense. (Both deadlines are one year later for certain long-lived and transportation property, such as materials used in building construction and vehicles.)

Qualified assets include new equipment with a lifespan of 20 years or less, off-the-shelf computer software and qualified leasehold improvement

property, which generally is an improvement on a rental property that is at least three years old.

Some corporations can choose to accelerate their alternative minimum tax (AMT) credits instead of taking the bonus depreciation for assets they acquire and begin using in 2011 or 2012. For certain long-lived and transportation property, you can buy and begin using those assets through 2013 and accelerate AMT credits.

Section 179 Expensing

Under Section 179 expensing, you may be able to deduct the cost of qualified business assets, including machinery, equipment, vehicles and furniture, rather than depreciating them over a period of years. Qualified leasehold improvement property is also an eligible asset in 2011, but not in 2012 and beyond.

Annual limits apply to both the total dollar amount you can deduct and the total amount you can buy. For every dollar you spend beyond the purchase limit, your deduction is reduced by a dollar. Traditionally, the limits were low, so only small businesses benefited from Section 179 expensing. The Small Business Jobs Act of 2010, however, ramped up those limits to \$500,000 (\$250,000 can be qualified leasehold expenses) and \$2 million, for 2010 and 2011, so more businesses can now benefit. The Tax Relief act sets the limits for 2012 at \$125,000 and \$500,000 (both to be indexed for inflation), but the limits are scheduled to drop to only \$25,000 and \$200,000 in 2013.

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CPAs & BUSINESS ADVISORS

What's Your Company Worth?

A Business Valuation Can Achieve Many Objectives

OVERVIEW

There are reasons to conduct a business valuation. The main reason is in preparation for selling a manufacturing or distribution business. But knowing the company's value can be helpful when doing succession and estate planning and for other business-related reasons. This article explores those reasons and the four valuation methods commonly used.



The valuation process involves valuing both tangible assets, such as inventories and equipment, and intangible assets, such as a company's management team and name or brand recognition.

Succession and Estate Planning

When you're transferring ownership of the business by gifting shares, a valuation can help ensure the gifts hold up under IRS examination. A valuation can also help in the assessment of the adequacy of life insurance coverage and in planning an exit strategy for shareholder retirement.

In addition, a valuation may be required for filing an estate tax return for an owner's estate and to satisfy any related tax liability.

Establishing business value is also important when structuring a buy-sell agreement's terms for buying back owner shares. Examples of occasions where buy-sell agreements may apply include shareholder retirements or disputes, divorce proceedings and legal division of assets, and disability or death of a shareholder.

Business-Related Reasons

There are more business-related reasons to conduct a valuation, including post-transaction accounting. After a merger or acquisition, a valuation may be required to comply with Financial Accounting Standards Board rules. A valuator can help a company determine purchase price allocations, evaluate asset impairment and untangle postdeal tax issues.

If your business structure is changing—for example, converting from a C to an S corporation—a valuation may be necessary to establish a value basis for company stock.

A valuation also may be needed when implementing an employee stock ownership plan (ESOP). ESOPs typically require establishing a value basis for company stock that can withstand scrutiny from the IRS and the Department of Labor.

If you're facing commercial litigation, a valuation can be useful in legal contexts, such as an owner's divorce, an economic damages claim, bankruptcy or a shareholder dispute. A valuator can help the parties settle their differences out of court or serve as an expert witness during trial.

Valuation Methods

For most publicly traded companies, assessing value is as easy as checking the closing stock price for the day. But for a privately held business, it's not so simple.

Your financial statements can serve as a starting point, but they won't provide the full picture of your company's worth. There's no one-size-fits-all valuation method. That's why it's critical to retain a qualified business appraiser.

The valuation process involves valuing both tangible assets, such as inventories and equipment, and intangible assets, such as a company's management team and name or brand recognition. Applicable of methods may vary depending on the valuation's purpose. Using a combination of methods generally provides a more reliable valuation. Here are four commonly used methods:

1

Asset or Cost Approach

This approach restates the company's assets and liabilities—including unrecorded intangible assets and contingent liabilities—with fair market values replacing book values. It may be particularly useful to manufacturers, distributors and other businesses that maintain a lot of hard assets. The approach factors in items such as inventory, improvements made to a business's facility space, and receivables (adjusted for aging and bad debts).

2

Income Approach

Using this approach, a valuator focuses on the anticipated benefits of investing in the business and determines the required rate of return based on the company's unique risk factors. A common method under this approach estimates a business's value by dividing its expected earnings by a capitalization rate. Atypical business scenarios, such as start-ups or companies with volatile short-term earnings expectations, may call for more complex discounted cash flow analyses.

3 Market Approach

The market approach involves the use of pricing multiples, which are based on stock prices of comparable public companies, or asset or stock sales of comparable private companies compiled by various proprietary databases. When selecting comparable companies, valuers use a variety of criteria, including industry, size, transaction date and financial condition.

4 Industry Rule of Thumb

Industry pricing formulas—often spread by word of mouth or published in trade publications—serve as useful sanity checks for values determined from other methods. But rules of thumb possess numerous drawbacks and should never be used as a sole method of valuation. For example, variables

may be poorly defined and formulas may be oversimplified, failing to consider, excess working capital, volatile historic earnings or expected changes in market conditions.

Achieve Your Objectives

To gain an accurate picture of your company's value, work with a professional valuator who has the financial expertise and knowledge of your industry. A comprehensive valuation can help achieve both personal and business objectives. ■



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Through the end of 2011, it may make more sense to take advantage of 100 percent bonus depreciation instead of Section 179 expensing, because bonus depreciation has no dollar limit. In 2012, when bonus depreciation is 50 percent, you'll want to consider the total cost of your purchases when deciding which incentive to use. Also, keep in mind only new property is eligible for bonus depreciation, whereas both new property and used property are eligible for Section 179 expensing.

Work Opportunity Credit

If you've been waiting to boost your staffing, this could be the financial push you need. The Tax Relief act extends the Work Opportunity credit to qualifying hires made through Dec. 31. The credit previously was set to expire after Aug. 31.

If you hire from certain disadvantaged groups, such as disabled veterans, food stamp recipients and convicted felons, you can receive a tax credit

for 40 percent of the first \$6,000 you pay to each qualified new worker—\$12,000 if the worker is a veteran.

Other Tax Incentives

Other tax breaks you may be able to tap into include enhanced deductions for certain charitable donations and credits for manufacturing energy-efficient appliances. Your tax advisor can help you determine which tax incentives are most applicable for your company. ■



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RETURN SERVICE REQUESTED

New IRS Measures on Liens Make Dealing with Back Taxes Easier

If you're worried about unpaid taxes, recent IRS measures may help you breathe easier. The IRS has relaxed its policies on liens, which are claims that the federal government puts on the assets of delinquent taxpayers.

Manufacturers with liens against them risk having the government seize their property and may have trouble obtaining credit. Thus, it's important to promptly take the steps necessary to have a lien withdrawn.

The new rules make it easier for small businesses to set up payment plans for back taxes and, ultimately, have their liens withdrawn. While the IRS doesn't specify which manufacturers fall into the small business category, the U.S. Small Business Administration generally defines a small business as one with 500 or fewer employees.

Small businesses with \$25,000 or less in back taxes can now qualify for a payment plan — previously, the tax threshold was \$10,000. If you owe more than \$25,000 in back taxes,

you can pay down the amount to \$25,000 and then qualify. Once you start making your payments, the IRS will withdraw the lien after a probationary period. You must pay off the balance within two years.

If you have unpaid taxes but haven't yet been slapped with a lien, you also may be in luck. The IRS also announced that it is significantly raising the dollar threshold when liens are issued, though it hasn't specified what the new threshold is. Still, if you owe back taxes, it's in your best interests to pay up quickly to avoid problems. ■



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