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CPA Found Entree In Others' Exits

Jeffrey Starbird grew up in a family-owned business and has made a career of advising entrepreneurs, particularly those interested in selling.

By Todd Nelson, Special to the Star Tribune

Growing up in a family business was great training for Jeffrey Starbird.

He drove a truck and did payroll and billing while working for Starbird Electric, which his great-grandfather had founded in 1898. He also figured his future was in something other than contracting.

"I would have been the fourth generation of Starbird Electric," Starbird said. "At an early age, my father told me I should probably do something else. My mechanical abilities did not meet my scholastic ones."

Starbird earned accounting and law degrees and became a certified public accountant, joining the Minneapolis firm of Lurie Besikof Lapidus & Co. in 1979.

While the family business is gone -- neither he nor his siblings took it over from their father -- the history is still valuable. Starbird, a partner in the firm who has extensive experience in mergers and acquisitions, often works with family-owned and closely held firms.

"My experience certainly helped me understand what most family businesses go through," Starbird said. "I've witnessed the ones that have succeeded, the ones that have had their issues and the ones that have succeeded despite their issues."

One of the most interesting times is when owners are preparing to sell and are looking to maximize their return and limit taxes from the transaction, Starbird said. It is also the time when psychological aspects, such as seller's remorse or uncertainty over what to do next, can kick in and outweigh the potential financial gain.

The tax structure of the sale and other factors can affect how much money an owner ends up with afterward, and how much a buyer will pay, said Starbird, 54. When buyers and sellers have different ideas about how to approach a sale, the purchase price can become a moving target.

Resolving those differences can put the accountant at the center of the action, in contrast to the profession's green eyeshade stereotypes.

"If our client is the seller, we'll do a tax projection to show how much after-tax cash is available after the sale," Starbird said. "It's the negotiations and the difference in sale structures that cause attorneys and everybody to go kind of wild. ... Somewhere there has to be a compromise. ... It's up to the CPA to get them to that position. ... If we can show that the tax differences are minimal, then it gets a lot easier for everybody." Starbird also counsels companies to work closely with their own accountants.

Pass-through corporations

The way a company is organized is one of the first things an accountant will look at before a sale.

In a pass-through, or "S corporation," income and losses pass through to shareholders, who pay personal income tax on the income, as they would on wages, Starbird said. That avoids the double taxation that can occur with a regular, or "C corporation," where tax is imposed both on corporate profits and on dividends paid to shareholders.

"If a business is starting out, in the vast majority of cases I would have them set up as an S corp," Starbird said, or as a limited liability company or partnership, which also are pass-through entities. "That makes it a lot easier when you sell your business. It's a lot more flexible because there's one tax on the sale."

In a hypothetical case, an S corporation that sold for \$5.8 million would have to sell for \$10 million as a C corporation for the owner to net the same amount of cash.

The accountant then advises the owner on the tax structure of the deal. In a stock sale, Starbird said, the company sells everything -- its history and assets and liabilities. In an asset sale, the owner keeps the corporate shell and most liabilities but sells the equipment and other revenue-producing assets.

The structure can be a point of disagreement, Starbird said. Sellers typically prefer a stock sale, because accountants can readily determine taxes payable under that structure. Buyers usually prefer an asset sale, in part to avoid potential legal liability. But an asset sale can mean more of the money the seller receives is subject to ordinary income tax, which can be significantly higher than capital gains taxes.

Allocating, or accounting for, the purchase price also can affect the amount of tax a seller pays, Starbird said. In this process, a portion of the purchase price is allocated to everything in the transaction, from equipment to intangible assets such as goodwill. Different tax rates apply to the sale of various types of assets. To avoid surprises, both parties usually review the allocation before the sale closes.

Starbird goes into greater detail on the accountant's role in selling a business in the book "Exit Strategy: Maximizing the Value of Your Business." He and Tom Lyons, the book's author and president of Faelon Business Brokers in Golden Valley, both advocate a team approach that brings together a financial planner, estate attorney, transaction attorney and other professionals to advise an owner who is considering selling a company.

After a sale goes through, acquaintances will ask Starbird about losing a client.

"It's not the worst day in your life when a great client sells, it's a good thing," he said.

"Many successful businesses are sold, and they hopefully end up with a lot of money. And many entrepreneurs take some of that, or the next generation does, and start new businesses and they return to the law firm or the accounting firm. We work with generations of business that are different businesses that all result from the same source, and that's rewarding."

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