UNDERSTANDING THE SELLER'S

TRANSACTION COSTS

By Brendon Falk

When you are selling a business, there will be transaction costs worth considering prior to making any decision to commit to the sale. These costs are categorised as follows:-

Legal Fees - Is the cost of conveyancing or transferring your business and its assets from one party to another. Whilst the scope of work can vary considerably from one business to another, it will involve (i) assignment of lease or new lease preparation, (ii) transfer of business assets, (iii) transfer of business trading particulars (iv) assignment or transfer of any existing licences or agreements and (v) attending settlement. Based on recent transactions, you should budget between $3,000 to $4,000 plus GST and these fees will be deducted upon settlement from the balance of purchase monies paid to the seller.

Accounting - It is customary for the seller's accountant to prepare a compilation report for the purpose of selling the business as a going concern. This report will show the financial performance of the business in recent years, once non-standard expenditure has been removed. To have this report prepared by your accountant, you should budget between $600 and $1,200 plus GST depending on the complexity of the accounts involved. This fee will be incurred prior to listing the business as the report is required at this stage.

Taxes - Consider that unpaid GST, payroll tax, PAYG withholding tax, company tax liabilities that have arisen during the course of trading, will need to be paid following settlement. Sometimes the sale will also result in Capital Gains Tax (CGT). CGT will arise where you have made a net gain on the assets when disposed of at the time of sale. This is a topic that should be discussed with your financial advisor and tax accountant at the earliest possible time. You need to be aware of the pitfalls may sellers fall into by not considering CGT offsets, concessions, exemptions and various timing issues that can make a big difference to the amount of CGT payable.

Employee Entitlements - You need to consider PAYG withholding, super guarantee, accrued holiday, sick and long service leave payable depending on the Award or Agreement the employee is employed under. Whether the employees are paid out their entitlements on settlement or an adjustment is made to the purchase price to compensate the buyer for taking on these liabilities, this is a cost that you or your accountant should estimate. If you are up to date with entitlements or your workers are employed on a casual basis, this liability could be minimal if any.

Equipment Leases - More often than not, your business assets which include plant equipment, motor vehicles and office equipment, will not have any encumbrances over them. However, if this equipment is leased or chattel financed, it is customary to either pay out the residual balance owing or to transfer the lease to the buyer (if assignable). If the lease has a considerable payout figure attached and it is not feasible to do so, the buyer will expect to be compensated through a reduction in the purchase price for accepting this ongoing liability.

Trade Creditors - These are the suppliers that provide you with a product (stock) or service (Internet, telephony, utility) on account terms. Whilst these do not have to be paid out immediately upon settlement, the costs which have been incurred prior to settlement will always be the seller's liability so they are costs that will need to be considered. You cannot rely on your creditors to continue to finance your cash flow once you cease trading so it is worth estimating what these costs are likely to be. Many seller's make a point of settling or trading down these liabilities as settlement approaches.

Business Finance - Any finance you have with security over your business or its assets will amount to another transaction cost payable upon settlement. If you have a business loan that is greater than the sale price of your business, it might be the case that your bank will not permit the sale of those assets unless they are confident the loan can still be fully settled by other means. There may also be early loan termination and release fees payable.

Marketing - Marketing fees can include all manor of advertising costs required to prepare and market a business for sale. These costs will vary depending on the level of exposure required in order to generate suitable leads or purchase enquiries. As a rule of thumb, marketing is 1% of sale price but it can be considerably less if these costs are absorbed into the agents commission depending what has been negotiated.

Agents Fees - The agent's commission is payable only upon settlement and is usually deducted from the buyer's deposit or settlement proceeds. With commercial property / businesses, there is no set fee however, the market rates across Queensland vary between 6% to 8% depending on the scale and complexity of the business.

As a very rough rule of thumb, it would be wise to expect transaction costs to be in the vicinity of 10% of the sale price. But again, this varies on a case by case basis and depends on the seller's particular circumstances. Should you require any further information or assistance on this topic, I invite you to contact me on my landline (07) 4124 4677, my mobile 0412 311 803 or by email bfalk@foresightbusiness.com.au.

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