



UNDERSTANDING A BUYER'S

PURCHASING COSTS

By Brendon Falk

When you are buying a business, there will be transaction costs worth considering in order to accurately estimate the total purchase capital required. These cost estimates are itemised as follows:-

Legal Fees - This will typically include (i) reviewing and preparing lease disclosure documents (ii) check for any charges over the business assets, (iii) checking for any requisitions over the business (iv) reviewing any licences or agreements that need to be transferred (v) arranging for stamping and (vi) conducting settlement. Based on recent transactions, you should budget between \$3,000 to \$4,000 plus GST. These fees will be payable upon settlement.

Purchasing Entity - Your solicitor or accountant will advise on the choice of purchasing entity that best suits your tax and legal circumstances. Choosing the right entity is important for taxation efficiency and risk management (asset protection). However, the cost of setting up the entity will be in addition to existing legal and accounting fees. A popular choice has become the discretionary Family Trust with a Pty Ltd as Corporate Trustee. You would need to allow an additional \$1,000 to \$1,500 plus GST depending on the structure chosen.

Accounting - The accountant's primary role in a business sale transaction is to conduct accounting due diligence on behalf of the buyer. The cost for conducting due diligence will vary depending on the accountant's involvement and the complexity of the business being analysed. Many buyers from a business or finance background will conduct due diligence themselves. If you engage your accountant, budget anywhere from \$1,200 to \$2,000 plus GST.

Business Finance - If you are financing the purchase capital, you will have to allow for loan application fees which are generally under \$1,000. Many buyers also look at financing their working capital through a business overdraft facility and business credit card at the same time as applying for a business loan. Establishment costs for these additional credit facilities will be limited to a few hundred dollars.

Lease Bond - Nearly all commercial leases will require a security bond payable to the lessor on or before the lease is approved. The bond will vary between 1 to 3 months rent with the first month's rent payable in advance.

Transfer Duty - This is the state government tax, previously known as stamp duty. It is calculated on the contract sale amount of the business and is payable by the purchaser. The applicable rates are located in the following table:

Up to \$5,000	Nil
\$5,000 to \$75,000	\$1.50 for each \$100, or part of \$100, by which the dutiable value is more than \$5,000
\$75,000 to \$540,000	\$1,050 plus \$3.50 for each \$100, or part of \$100, by which the dutiable value is more than \$75,000
\$540,000 to \$980,000	\$17,325 plus \$4.50 for each \$100, or part of \$100, by which the dutiable value is more than \$540,000
More than \$980,000	\$37,125 plus \$5.25 for each \$100, or part of \$100, by which the dutiable value is more than \$980,000

(source: Qld Office of State Revenue 2009 <http://www.osr.qld.gov.au>).

Should you require any further information or assistance on this topic, I invite you to contact me on my mobile 0412 311 803 or by email bfalk@foresightbusiness.com.au.

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