

Book shows how to value, sell business

Millions of independent businesses are poised to change hands over the next few years, as the post WWII venture leaders hand over the reins to a new generation.

"It's a dramatic shift in assets," comments business broker Scott Gabehart.

Offering information to those on both sides of a business sales transaction, *The Upstart Guide to Buying, Valuing and Selling Your Business* (\$29.95, Upstart Publishing Company), by Gabehart, an experienced business broker, outlines practical, user-friendly tactics that cover all the stages in the purchase, valuation or sale of a business. Gabehart walks readers step-by-step through the process.

Gabehart offers concrete advice for buyers, for sellers and for anyone seeking to understand and use business valuation techniques.

Buyers will learn how to:

- Choose the right business
- Make an advisory team
- Prepare the offer and negotiate the final agreement

• Complete an appropriate due diligence review

- Deal with the closing and transition issues

Sellers and buyers alike will benefit from the author's detailed discussions of:

- The three primary methods of business valuation
- How to obtain and use market comparables
- Application of valuation techniques
- Three types of financing
- Stock versus asset sale overview

The Upstart Guide to Buying, Valuing and Selling Your Business includes a free disk containing sample contracts and forms to customize, as well as checklists and questionnaires for each stage of the sale and valuation process.

Author Scott Gabehart has valued and/or sold hundreds of businesses of all types.

He is a licensed business broker/mergers and acquisitions specialist with the VR Business Brokers office (Roth and Associates) in Scottsdale, Ariz.

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which overstates the analysis of employment statistics. "The slight increase in the jobless rate primarily reflects the continued strong rate at which workers are entering the state's job market."

Michigan's unemployment rate remains below the national rate of 4.7 percent. This is the 34th straight month in which Michigan's unemployment rate has been below the national rate.

Annual Unemployment Rate
Since mid-1997, monthly unemployment rates have shown little movement. For seven of the last eight months, the jobless rate has remained between 3.9 percent and 4.1 percent. Since January 1997, however, the rate reduction is a more substantial six-tenths of a percent. Rothwell noted that Michigan's overall labor force has been on a strong growth pattern, increasing by 76,000 since August.

The state's annual average unemployment rate fell from 4.9 percent in 1996, to 4.2 percent in 1997, as employment jumped by 106,000, and unemployment fell by 29,000.

Industry Employment
The Jobs Commission's monthly survey of employers found that jobs increased in January in the government and manufacturing sectors, contrast-

ed by a decline in construction and wholesale trade employment.

"Over the year, however, both these industries have seen growth, with construction being particularly strong. The service sector was the other top growth industry for the state in 1997," Rothwell said.

Hours & Earnings
Average weekly hours and earnings of manufacturing production workers also rose in January. Hours worked in manufacturing were comparable with January 1997 levels, but in the auto industry, January's hours were below year-ago levels.

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IRA vs. ROTH IRA

Two couples jointly contribute \$4,000 annually to retirement savings.

	30-year old couple	45-year old couple
	Value at age 65	Value at age 65
Roth IRA	\$744,409	\$1,313,400
Deductible IRA	\$877,277	\$1,098,214
Nondeductible IRA	\$744,409	\$942,608
Taxable Account	\$420,409	\$52,432
	Total after-tax withdrawals during retirement	Total after-tax withdrawals during retirement
	\$1,077,692	\$1,348,768
	\$348,768	\$308,288
	\$263,858	\$263,858
	\$220,604	

Note: The deductible IRA's value at age 65 includes an amount that would be earned if the yearly tax deduction for making deposits were invested in a taxable account to be drawn down in retirement. Annual rate of return is 8 percent before retirement and 7 percent after retirement. Withdrawals are made over 20 years. Taxes are applied at a 28 percent federal tax rate and 3 percent state tax rate.
Source: T. Rowe Price Associates.

Consequences of Switching to Roth IRA

A 45-year old couple converts a \$25,000 regular IRA to a Roth.

	No Switch	Switch to Roth (Tax due is paid from other savings)	Switch to Roth (Tax due is paid from switched balance)
Value of IRA at retirement	\$116,524	\$116,524	\$68,050
Value of tax saved by not switching	\$21,205	—	—
Total value	\$137,729	\$116,524	\$68,050
Total after-tax withdrawals during retirement	\$172,518	\$205,589	\$120,064

Note: "No switch" assumes that the tax not paid when the IRA is retained is invested in a taxable account and drawn out during the retirement. In the third column, the tax paid includes a premature withdrawal penalty for taking funds from the IRA pay the tax.
Source: T. Rowe Price

years of a conversion to a Roth.

A benefit for home buyers is that after five years with a Roth they can withdraw up to \$10,000 before age 59½, without tax or the normal 10 percent penalty, if the money is for a first-time home purchase. First-time is liberally defined to cover people who haven't owned a home for two years.

Early withdrawals for other uses may also be enticing because of the special way in which income tax is figured on Roth payouts. Withdrawn cash is considered to first be nontaxable return of previously taxed deposits. Only after you've withdrawn all your deposits do further withdrawals of the account's earnings become subject to tax and penalty.

To Switch or Not to Switch?

A hard question is whether to take up the government on an offer to convert an existing IRA to a Roth account. The downside is that you'll have to pay tax now on the existing account's taxable balance, although no penalty will be assessed for such a switch. But by getting the tax out of the way, you can collect all your IRA retirement income tax-free. Tables 1 and 2 address this issue in some detail.

Installment Plan

People who qualify to convert — and do so — can ease the tax pain by paying the amount due in the installments, with no interest. They would report the withdrawal piecemeal as taxable income over four years.

A key to coming out ahead on a conversion is to pay the conversion tax from other funds, not from the balance shifted to a Roth. Estimates by T. Rowe Price show that a 45-year-old couple could boost after-tax retirement income \$33,000, or 19 percent by converting a \$25,000 deductible IRA to a Roth. If they pay the tax due out of the IRA balance — including a penalty on the amount of the withdrawal that was not rolled over — they lose retirement income. Conversions generally work best when you are far from retiring since there's more time to build assets tax-free.

A lot of pencil work may be needed to judge the choices. One guide on what type of IRA to have and whether to convert is the IRA Analyzer, a computer program from Price that lets you plug in scenarios (\$9.95 by mail, 800-333-0740). Online worksheets are available from Price at (www.troweprice.com) and from Vanguard mutual funds (www.vanguard.com).

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