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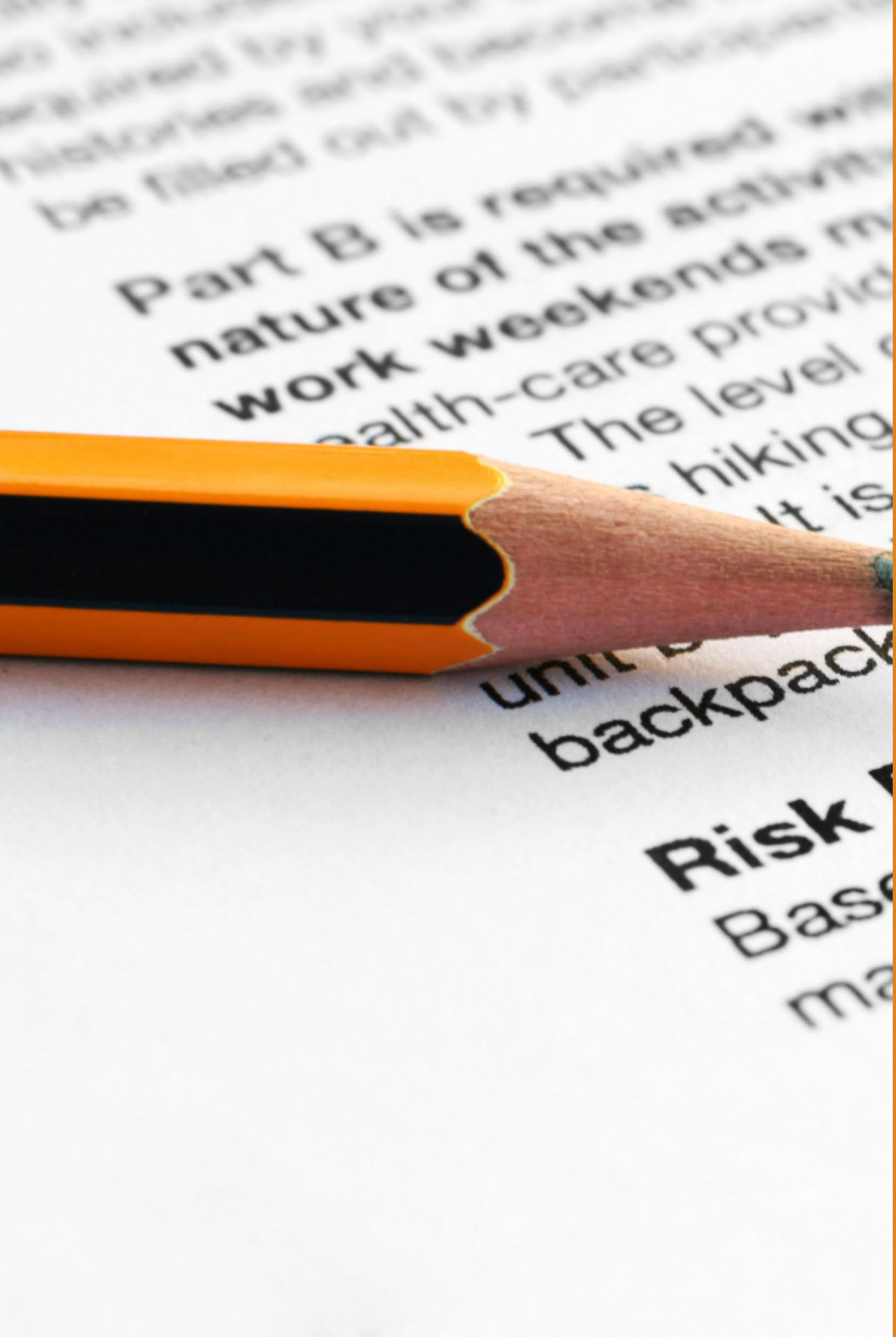
Due Diligence from an Accounting & Tax Perspective



What is due diligence?

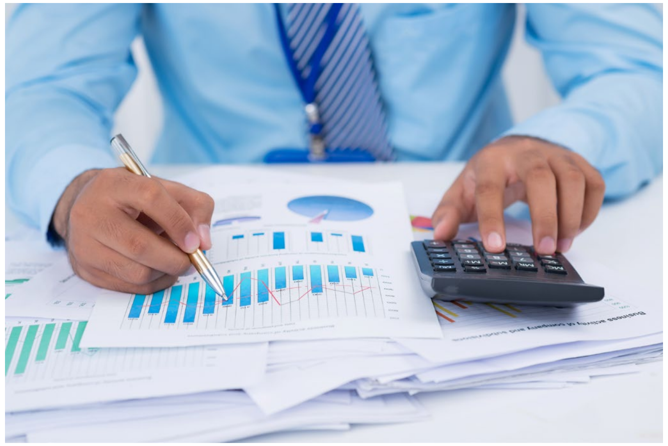
Due Diligence - *reasonable steps taken by a person in order to satisfy a legal requirement, especially in buying or selling something. Can included a comprehensive appraisal of a business undertaken by a prospective buyer, especially to establish its assets and liabilities and evaluate its commercial potential*.

– Google Definition

When would my company have Due Diligence for planning to sell my business?

There are several scenarios, and each scenario may have a little bit difference due diligence. The level of detail (and cost) typically depends on the prospective buyer.

1. Most detailed scenario – Third party buyer (private equity company/competitor purchase, etc.)
   a) Likely will involve hiring a third-party CPA firm to complete due diligence for tax and accounting.
   b) They are looking to make sure your company is compliant from a tax perspective and the financial statements accurately reflect your operations.
   c) Note that there can be other due diligence as well (benefits, environmental, technology, etc.)



When would my company have Due Diligence for planning to sell my business?

- 2. Other scenarios and potential needs – Internal purchase by key employees, family business transfer to other family members, ESOP (see Nathan's prior seminar on ESOP's)
  a) Internal purchase oftentimes involves an agreed upon amount that likely relates to a business valuation or agreed upon value by key management employees and the current owner.
  b) Family transfer – this would require a business valuation to calculate the gift. This is pretty common in 2021 with the expected estate exemption value to decrease.

How would you describe the due diligence process?

When a buyer is looking at a business, they see a shiny new car that they want.

Once the due diligence process starts, they look at everything under the hood.

There are series of inquiries and a lot of meetings with the third-party due diligence team. They will ask for a lot of information to add to their files while completing the due diligence. This is a very detailed process and oftentimes will take anywhere from 30-60 days. The key for this process is patience. It can consume a lot of time and be a stressful process for business owners. Make sure you have the right people on your team and the correct advisors involved during this process. Much of this information will stay confidential so choose your team wisely.

How can I prepare for a due diligence process?

There are a number of things that you can do during the course of this process proactively that will help a due diligence project go smoother:

- Written accounting policies and procedures.
- Clean financial statements- these could be audited, reviewed, or compiled by an accounting firm or prepared internally by your accounting department.
- Re-evaluate nexus. What is nexus? This determines whether you should be filing in additional states for sales and/or income tax purposes based upon your economic activity and physical presence in those states.
- Have a record retention policy and keep organized documentation.
- Know who your trusted advisors are and who your trusted team members are to assist.
- Scheduling due diligence time is an effective strategy to turn everything around promptly.

Coming up next…

October 13, 2021
Presented by Susan Thomson,
Partner & Licensed Coach,
actionCOACH

COMPLIMENTARY Resources for CLIENTS

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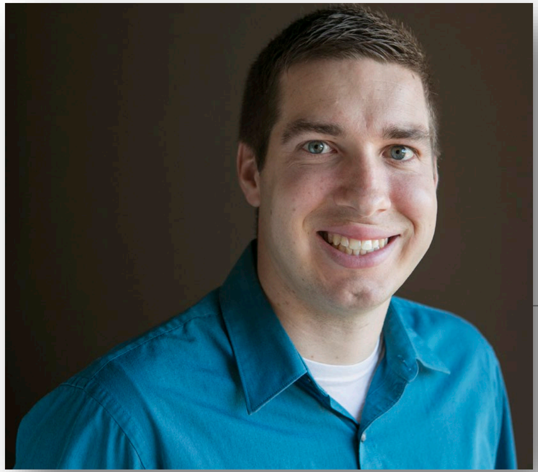

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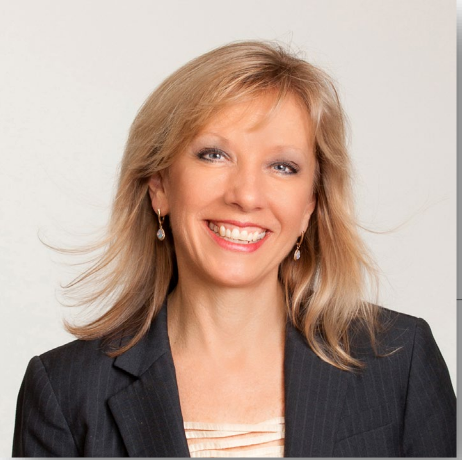

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