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End to Tax Cuts Could Cut into M&A Profits Next Year

Banker: Owners considering a sale might want to approach the market soon.

By Jason Fell

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Barring any action this year by Congress, tax cuts enacted under former President George W. Bush that put federal taxes on capital gains and dividends at 15 percent are set to expire on December 31, 2010. Next year, those taxes would revert back to 20 percent.

The Wall Street Journal reported this week that, according to the budget plan proposed Monday by President Barack Obama, the 15 percent tax rate would be extended beyond the end of this year for single taxpayers earning less than \$200,000 and couples making less than \$250,000 annually.



For media M&A, this means sellers starting in 2011 could see 5 percent less in after tax proceeds from an asset sale. "The effect of these tax increases is to make it relatively less appealing to earn income in 2011, and relatively less appealing to sell a business in January 2011 and afterward, compared to 2010," **Michael Alcamo**, president of investment banking firm **M.C. Alcamo & Co., Inc.** said in a statement the firm released today.

Particularly, Alcamo said, the tax increase would impact smaller, independent companies. "Owners considering a sale should probably consider approaching the market in the spring and summer, rather than waiting until the fall."

But in a magazine and media environment that has been slowed dramatically by the recession and a lack of financing, could a 5 percent profit cut deter most sellers from approaching the market in 2011, or force more to market this year? "I doubt it will have much impact," said Kim MacLeod, president of Rowayton, Connecticut-based Regional Media Advisors.

"Assuming it still goes through (and it may not, or at that original time frame), I doubt it will bring sellers to the market who weren't already planning to sell," she said. "While it would be a less favorable tax treatment after 2011, given current valuations and credit availability to buyers (e.g. better offers), they might still realize more actual proceeds as their business and the markets improve."

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