

## 10 Things you should know before buying a business

1. Purchasing **trading stock** as part of the business will entitle you to a deduction once the stock is sold. Maximising the amount of the sale consideration allocated to trading stock will maximise the deductions available.
2. The impact of purchasing **plant and equipment** of a business is not immediate but will entitle the purchaser to claim depreciation over a number of years. You want to maximize the amount allocated towards plant and equipment relative to other capital items in order to maximize future depreciation claims.
3. If taking over **accrued annual leave** entitlements you should reduce the amount of the purchase price to take this liability into account. You should not have the current owner pay you an amount for the accrued leave as this amount will be assessable to you immediately.
4. You should not take over the **trade debtors** of the previous owner. The purchase of debtors is considered to be a capital purchase. Should the debt prove uncollectible, no deduction will be available but instead a capital loss will result. If the purchaser insists on selling the debtors as part of the business you should consider discounting the debtor or alternatively collecting the debtors on their behalf for a fee.
5. If purchasing a **building** as part of the business purchase you may be entitled to claim a capital works deduction for building and structural improvements undertaken by the previous owner. You should ensure you obtain enough information from the previous owner to enable you to identify these amounts. If not available then a quantity surveyors report can be obtained.

## 10 Things you should know before buying a business

6. Purchasing the shares in a company with **tax losses** may entitle you to take advantage of those losses, but will also subject you to any actions against the company by previous customers and suppliers.
7. If you require the previous owner to remain in the business for a period of time after the takeover, a **fee for the previous owners services** should be negotiated and separately identified. If characterized as such it will be deductible rather than being capital in nature and therefore non-deductible.
8. If you are uncertain about the future profits of the business, consider adding an **"earn out" clause** to the contract. Such a clause will link the purchase price (or part thereof) to the future profits of the business. (e.g. where the purchase price is set as a dollar amount plus a percentage of future business profits).
9. For the purchase of a business to be **GST free** a number of requirements must be satisfied. These include the purchaser being registered for GST at the time of purchase, the current owner continuing to carry on business up to the date of sale and the current owner must also supply all things necessary for the continued operation of the business.
10. In order to protect your newly acquired business it is important that the sale agreement include a **restraint of trade** clause which requires the selling party not to compete against you in a similar business in a set area and for a set period of time.