

# Tax-Managed Accounts Offset Capital Gains from Selling a Business

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As a small business owner, I'm sure you're looking forward to the day when you sell your business. And while it's true the sale of that business can generate large capital gains for you the flip side of the coin is that you're going to incur a large tax liability. I'm George Sparks, Director here with Barnes Dennig and I'm here today to tell you how a tax managed account can help offset some of those gains from the sale of that business.

Let's look at two examples. John is ready to sell his business and is set to receive a million-dollar taxable gain with a tax liability of \$260,000. That leaves John with net cash proceeds of \$740,000. Now let's look at the same scenario but this time John took advantage of a tax managed account. Again, the tax gains stemming from the sale of the John's business is \$1,000,000. However, with a managed account John incurs a \$200,000 reduction lowering the taxable gain to \$800,000. This results in a lower tax liability of \$208,000. By employing a tax manage account strategy John will walk away with \$792,000 an increase of \$52,000 over the previous example.

A tax managed account recognizes the opportunities in a down market or a valley by harvesting the temporary downturn in the market while staying true to the investment strategy of targeting the index return. This is achieved by harvesting three to 5% of its value in losses while understanding that over time the stock market generally returns 8%. If we look back at our earlier example it assumed a 4% harvest on a million-dollar portfolio meaning a loss harvest of \$40,000 in a year. If there was a five-year span between the harvesting and the sale of the closely held business then \$200,000 of gain would be offset against the harvested losses resulting in a savings of \$52,000. The same strategy can be applied to both estate planning and exercising stock options. Visit us at [barnesdennig.com](http://barnesdennig.com) to learn more.