

What Is Your Good Name Worth?

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If you were to make a list of your retail fuel oil company's assets you might include trucks, a bulk plant, parts inventory, real estate, office equipment, the thousands of gallons of fuel oil in storage and your customer list. But you might miss one of the most valuable of all your possessions – you. You always knew that, but now the IRS may be agreeing with you.

There is a business concept known as “personal goodwill,” and it is particularly important in a service-oriented business like oilheat. Personal goodwill is the value an individual brings to a company through leadership, experience, knowledge, personal contacts and reputation.

Think about it: You (or your family) have built the business up over the years. You have most likely served as the public face of the company, dealing with customers, vendor, municipal authorities, regulators and competitors. Where would your business be without you?

There is value in the personal contributions you or other key individuals bring to the business. That value could be recognized if and when you decide to sell the company or pass it along to the next generation. In fact, there are situations in which the value of your personal goodwill can have significant implications on the sale price and the tax strategy you adopt.

Let's use an example of how the value of your personal goodwill can affect the sale of your C Corporation Oilheat business. Say CPA Oil Inc. is being sold, and is valued at \$5 million. It can be determined that part of that value is the personal goodwill of the owner. In many cases, this goodwill is “purchased” over several years in the form of a consulting contract for the former owner, which usually includes a non-compete clause.

Normally, the proceeds you receive from the sale are allocated among tangible assets (trucks, inventory, equipment, etc.) and intangible assets (customer list, logos, trade marks, company goodwill, etc.), and have an impact on how much you will pay in taxes after the sale is completed. It pays (literally!) to pay close attention to the various “buckets” into which each portion of the sale price is placed.

If you simply take the entire \$5 million as the sale of assets in a C corporation it will be taxed as ordinary corporate income (federal tax of 35%). Then, when you liquidate the Corporation and distribute the cash, you will pay a capital gains tax on the distribution. Recent tax court rulings have indicated that shifting a portion of the overall business value to personal goodwill will allow that portion

of the sale price to be taxed as a long term capital gain instead, sidestepping the C corporate taxes completely. The capital gain tax rate (currently set at 15%) will help you put a lot more money in your pocket.

As with any transaction that involves taxes, you should consult a qualified adviser before making any decision. But a little work up front, starting with placing a dollar value on your “personal goodwill,” can often save you thousands of dollars when you sell or transfer your business.

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