Publication: Limerick Chronicle
Date: Tuesday, March 02, 2010
Page: 19
Extract: 1 of 1
Circulation: 9.000
Author: Larry Ryan
Headline: BUSINESS Q&A: Expert advice for small enterprises

BUSINESS Q&A: Expert advice for small enterprises

compiled by Larry Ryan

A TAX EFFICIENT WAY TO SELL UP

Q: I am nearing retirement age and have received an indication from two of my senior employees that they may be interested in the purchase of my distribution business. The business trades from valuable premises and the employees have told me that they could not afford to purchase the premises along with the business. The business and premises are both owned by my company and I have been advised that if I sell the business separately I will pay tax twice. Is there any way that I can avoid this double tax bill?
Mark

A: For this taxation issue, I asked David Price, of Taxmedic who provided the following advice:

Yours is a fairly common dilemma for business owners. The reason for the double tax that you have been advised of is that the business is owned by your company so only the company can sell it.

The company will pay tax on the gain it makes on the sale and then you will have to pay tax on the remaining proceeds when they are paid out to you by the company.

The company will pay the 25 per cent capital gains tax rate on its gain. You will pay Income Tax on the funds you receive, salary or dividends, from the company at rates of up to 55 per cent (including PRSI and the new levy).

To avoid this type of "double taxation" and more particularly to avoid the higher income tax rates, business owners usually seek to sell their company rather than have it sell its business.

This usually ensures that they incur, at worst, a single charge to CGT. It can also be preferable from the purchaser's viewpoint as they would have a lower charge to Stamp Duty on a share purchase (one per cent) than a business purchase (up to six per cent). The difficulty you face, however, is that you cannot sell your company as it also owns the premises.

There are a number of avenues which you could explore to separate the premises from the business prior to selling.

One route, which may be suitable in your case, would be to transfer your business into a separate company and sell that company retaining the premises in your existing company. As the new company is owned by you, the sale proceeds would go to you personally with only one incidence of capital gains tax (CGT). Normally a transfer of a business from one company to another gives rise to up to six different tax charges including Stamp Duty & CGT.

However, there are provisions in the tax code for relief from each of these taxes in certain circumstances and your position may well fall within these.

In addition, there is a very valuable exemption from CGT which allows a business owner to receive up to €750,000 tax free on the sale of their business. As always this exemption is subject to a number of conditions but it appears that it may have application in your case and it should be explored with your tax consultant before any sale.

MEASURING YOUR CONVERSION RATE

Q: have recently set up a new e-commerce website to sell my own range of health products. I am just getting started on marketing the site. How many visitors do I need to attract to my website in order to make a single sale?
Margaret

A: The percentage of your web site users who purchase from your site is known as your conversion rate. The conversion rate will depend on a lot of factors such as the price of your products, your target audience and how well your site is optimised.

Annmarie Hanlon and Joanna Akins, authors of a new book Quick Win Digital Marketing, recommend ways to measure and assess conversion rate and outline what kind of conversion rate a site like yours can expect.

They recommend Google Analytics (google.com/analytics) as the best free tool for tracking your site visitors. It's a web-based tool that gives you statistics about your web traffic and marketing effectiveness.

In particular, they recommend four Google Analytics tools:

- Advertising Return on Investment: Identifies which search keywords users are using to find your website, identifies which Google Adwords are most profitable and which of your site content is most profitable.

- Benchmarking: See how your site compares to others in your industry.

- Goals: Set advertising and other goals and measure effectiveness in terms of conversion rate.

- Bounce rate: See whether your website entry pages have "stickiness" or whether visitors visit only one page before leaving.

To assess conversion rate, simply find out how many visits were made to your website in a specified period, for example one month. Then find out how many orders were made on your site during this period. Divide the number of orders by the number of visits and multiply by 100 to get a percentage.

So, for example, if you have 100 orders in a month from 1000 visits, your conversion rate is 10%.

In Quick Win Digital Marketing, Hanlon and Akins provide conversion rate examples of two consumer websites they work with. One has an average sale value of €35 and has a conversion rate of 4.7 per cent, another has an average sale value of €60 and has an conversion rate around 4.1 per cent. Another site that targets business and consumers has a conversion rate of 1.4 per cent, with a typical order size of €60.

Let's suppose you manage a conversion rate of three per cent. You would need to attract around 34 users to your site to get one salf you le.

If you have a question or you are looking for help in any particular area of business, email your question to larry@offtheground.ie