# Higher Taxes Will Reduce the After-Tax Value of Your Business

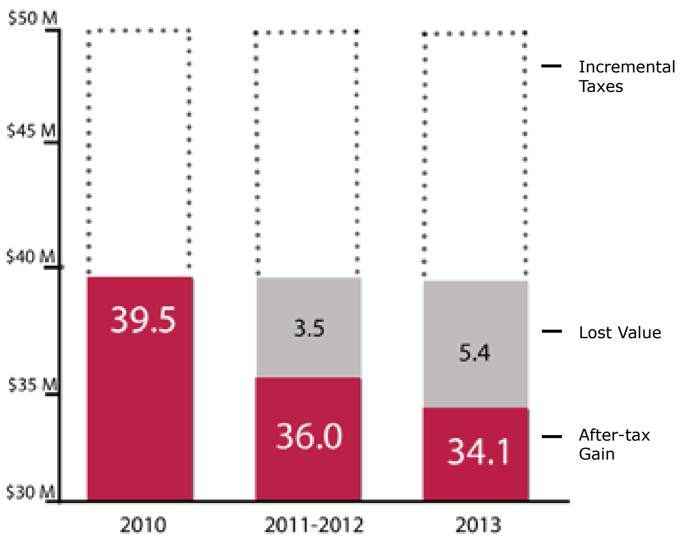
Higher tax rates will reduce the net proceeds from the future sale of your business. Some of the scheduled or proposed tax increases include:

- An increase in the federal long-term capital gains tax rate from 15% to 20% for the top tax brackets in 2011[1].
- New Medicare taxes associated with the healthcare bill would apply an additional 3.8% tax rate to realized capital gains, dividends, interest, rents and royalties effective as of 2013[2].
- Many states are increasing their long-term capital gains tax rate by 1% or 2% . The illustration below assumes a current 6% state long-term capital gains tax rate.[3]

Let's consider the following scenario:

Assume the sale of your company generates a personal pre-tax gain of $50 million. If your company was sold before December 31, 2010, the after-tax gain from the transaction would be approximately $39.5 million[4]. However, if the same company were sold after December 31, 2010, the after-tax gain would be $36 million[5]. If the company was sold after December 31, 2012, the after-tax gain would be approximately $34.1 million[6].

After-Tax Proceeds From Sale

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Assume your after-tax proceeds generate an annual return of 8%. Looking three years out, you would need to grow your business' EBITDA[7] by 13% every year for three years just to maintain the same after-tax gain generated in 2010[8].

| | 2010 | 2011-2012 | 2013 |
|---|---|---|---|
| Federal Tax | 15% | 20% | 20% |
| State Tax | 6% | 8% | 8% |
| Medicare Surtax | - | - | 3.80% |
| TOTAL | 21% | 28% | 31.80% |
| Pre-tax Gain | $50M | $50M | $50M |
| **After-Tax Proceeds** | **$39.5M** | **$36.0M** | **$34.1M** |
| **Lost Value** | | **-$3.5M** | **-$5.4M** |

Other tax increases scheduled for 2011, unless Congress modifies the sunset provision of the 2003 Jobs and Growth Tax Relief Reconciliation Act, include:

- Income tax rates increase from 33% to 36% and 35% to 39.6% for the two top tax brackets[9].
- Tax rates on qualified dividends increase from 15% to 39.6% for the top tax bracket[10].

Economists are predicting higher taxes to address the soaring federal deficit in the coming years.[11]

With this in mind, if you are contemplating a partial or total sale of your business in the next couple years, you might want to consider completing the transaction today and benefiting from the current tax rates.

## To Learn More

To learn how DWHP can help you realize a partial liquidity event today to maximize your after-tax profit and accelerate the growth of your business through organic and acquisitive growth initiatives, please contact:

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*DW Healthcare Partners (DWHP) is a healthcare-focused private equity firm that invests in high-growth companies. DWHP provides both capital and strategic resources to accelerate growth and increase shareholder value.*

Footnotes:

1. Deloitte. "President Obama's proposed changes to individual taxes-considerations for high-net-worth taxpayers." 2009.
2. Bloomberg Businessweek. "New Health-Care Taxes Help Obama Spread the Wealth." March 22, 2010.
3. Ernst & Young LLP. "State Individual Capital Gains Tax Rates." October 29, 2008.
4. Assuming the current 15% federal and 6% state long-term capital gains rate.
5. Assuming a current 20% federal and 8% state long-term capital gains rate.
6. Assuming a current 23.8% federal and 8% state long-term capital gains rate.
7. EBITDA is defined as earnings before interest, taxes, depreciation and amortization.
8. Assuming a constant valuation approach and an 8% annual discount rate.
9. Deloitte. "President Obama's proposed changes to individual taxes-considerations for high-net-worth taxpayers." 2009.
10. Investment Advisor. "Utilities Poised for Upside, Report Says, Despite Concerns on Dividend Taxes." March 27, 2010.
11. ABC News / Politics. By Devin Dwyer. "Drowning in Debt: What the Nation's Budget Woes Mean for You - Economists Predict Cutbacks, Tax Increases That 'Aren't Even Imaginable." February 7, 2010.