

## Heard on the Street: The Impact of Tax Policy Changes on Owners

In light of recent speculation around changes to tax policy, Bridgepoint is providing a real-time update of what we are hearing from our industry relationships.

- **83% of respondents expect tax policy changes to occur in 2022.** Of those respondents, **86% of them expect these tax policy changes to influence business owners' decisions to sell their companies.** – *Corporate, M&A and estate planning attorneys and private equity professionals who responded to an independent survey conducted by Bridgepoint Investment Banking*
- **"The Big 4 CPA firm told us they won't be taking on any more transaction services projects** unless you are a \$1 million client and/or the project is at least \$500,000. This is part of their resource planning efforts in light of **urgency created by the anticipated tax code changes.**" – *Private equity firm considering the sale of one of their portfolio companies*
- The **expected effective date for proposed tax policy changes varies** and the proposed effective date for these tax policy changes is yet unknown; possibilities include the date of enactment, the beginning or end of the tax year, the date of action by tax-writing committee, or the date of a public announcement. Retroactive tax increases are rare. – *Stinson LLP*
- The **potential elimination or increase in the SALT (state and local tax) deduction cap,** a key issue to tax reform proposals that has largely been left out of the headlines, is expected to complicate the passage of Biden's tax reform bills. – *MarketWatch*
- Beyond changes to federal tax policy, an **overhaul of international taxation policy may be on the horizon.** Senate Finance Committee Chair Ron Wyden, D-Oregon, is proposing international tax reform aimed at new and/or increased taxes on global intangible low-taxed income (GILTI) and the minimum tax on financial statement income, as well as repealing the foreign derive intangible income (FDII) deduction and replacing the base erosion and anti-abuse tax (BEAT). – *Grant Thornton LLP*

### Illustrating the Impact of the Proposed Tax Changes

	Current Tax Regime	Biden Proposed Tax Regime
EBITDA	\$10,000,000	\$10,000,000
Multiple	10.0x	10.0x
Valuation	\$100,000,000	\$100,000,000
Federal Tax Rate	20.0%	39.6%
Capital Gains Tax	\$20,000,000	\$39,600,000
Net Proceeds	\$80,000,000	\$60,400,000
Lost Proceeds		(\$19,600,000)

EBITDA	\$13,245,033
Multiple	10.0x
Valuation	\$132,450,331
Federal Tax Rate	39.6%
Capital Gains Tax	\$52,450,331
Net Proceeds	\$80,000,000
Required EBITDA Growth for Same Proceeds	32.5%

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### Proposed Changes to U.S. Tax Policy

<b>Capital Gains Taxes</b>	<ul style="list-style-type: none"> <li>Expected to increase to 39.6% for individuals with over \$1M in income</li> </ul>
<b>Corporate Tax Rates</b>	<ul style="list-style-type: none"> <li>Expected to increase from 21% to 28%</li> <li>New 15% minimum tax on companies' "book income" of \$100M+ (for companies who meet this threshold but currently pay no U.S. income tax)</li> </ul>
<b>Individual Tax Rates</b>	<ul style="list-style-type: none"> <li>Expected to increase to 39.6% for individuals making over \$400,000 annually</li> </ul>
<b>Payroll Tax Rates</b>	<ul style="list-style-type: none"> <li>Expected to add a 12.4% payroll tax on earnings over \$400,000</li> </ul>
<b>Step-up Basis</b>	<ul style="list-style-type: none"> <li>Expected to be eliminated</li> </ul>
<b>Capital Expenditures</b>	<ul style="list-style-type: none"> <li>Deductibility of capital expenditures is expected to be reduced</li> </ul>

The potential impact of proposed tax changes on the math for company owners could be, put simply, transformational. Many owners realize that the profitability growth, or purchase price multiple increase, required to get to the same after-tax proceeds in the future is staggering. This has created a wave of M&A activity. Third party service providers (quality of earnings, etc.) are often too busy to take on more work in the current environment. Realistically owners have another 30 days to pull the trigger, and should have started yesterday."

– Matt Plooster, Founder and CEO  
Bridgepoint Investment Banking