

Pros and cons of assets vs. shares

A quick guide to success when buying or selling a pharmacy

As all pharmaceutical entrepreneurs are aware, making the decision to purchase a pharmacy – or sell your existing one – is an in-depth process requiring careful consideration. At Zeifmans, we work with more than 300 independent pharmacies. We understand that every purchase and sale is unique, and that each deal should be structured based on the individual details. From assessing operations pre purchase to evaluate if performance is as expected for a pharmacy, to directing lawyers on the structure of transaction and advising the bank of the flow of funds – we do it all.

If you're buying or selling a pharmacy, you may find it helpful to consider the pros and cons of "Asset purchase/sale vs. Share purchase/sale."

BUYING A PHARMACY

Asset purchase:

PROS

- This company is yours to begin from scratch! Any negative history incurred by the previous owners (suppliers, taxes, etc.) is not your concern.
- Save tax money for years to come with the 'goodwill deduction' (eligible capital property), amortized over several years.

CONS

- This company is yours to begin ... from scratch. You will need to negotiate new accounts with suppliers, new credit, new leases, new ODB number, and new licenses through the Ontario College of Pharmacists.

Share purchase:

PROS

- You may be able to use the previous owner's losses against your own taxable income.
- You will not need to negotiate new leases, credit, employment agreements, or ODB numbers.

CONS

- You are not able to use the goodwill deduction.
- You will inherit any negative history from the previous owners. This could make your business vulnerable to lawsuits, and claims regarding the seller's operations.

SELLING A PHARMACY

Asset sale:

PROS

- You may be able to use any losses from the business against taxable income from the sale, or future income.
- *Capital Dividend Account* utilization allows you to take out a portion of the gain on the sale, tax-free.

CONS

- You are unable to use the *Capital Gains Exemption*, therefore taxes will be higher.
- You will still need to complete all corporate filings and regulatory paperwork for the year of sale, even though your business no longer has any activity.

Share sale:

PROS

- You may be able to utilize the *Capital Gains Deduction*, which allows hundreds of thousands of dollars of tax-free income on the sale of small business shares. Each shareholder (including family) can also utilize this deduction.
- You will not need to complete regulatory paperwork or corporate filings for the year of sale.

CONS

- You are unable to use the *Capital Dividend Account* for gains on the sale, and therefore cannot access that money tax-free.
- You may be required to “cleanse” the company prior to sale, which is costly and time-consuming.

A ZEIFMANS CASE STUDY

A Pharmacist client was eager to expand his company by purchasing a new location. This would allow him to diversify risk, while taking steps towards succession and retirement planning.

CLIENT CHALLENGE:

Our client wanted to purchase a pharmacy in the most tax-efficient manner.

ZEIFMANS SOLUTION:

- Assessed the pharmacy’s location – including lease review and demographic analysis – to ensure the geographic location was optimal.
- Assessed the pharmacy’s past performance – including gross profit, over-the-counter revenues, dispensary revenues, staffing and occupancy cost – to ensure the purchase price was appropriate.
- Advised on the structure of ownership to avoid additional tax and flow of funds.
- Advised the client’s bank and lawyer on the structure and flow of funds.
- Filled year-ends and tax returns to support the structure.

ZEIFMANS IMPACT:

Our client successfully secured funding from the bank, purchased the pharmacy, and paid a significantly reduced rate of tax – taking him closer to his goal of succession and retirement planning.

Contact Zeifmans today!

With nearly 60 years of experience, and 17 partners specializing in multiple fields, the Zeifmans team is equipped to guide you through every step of the purchase or sale process. Even better: our focus on personal relationships means that you’re never just a number.

Contact your Zeifmans advisor today, or **Robert A. Grunwald**, CPA, CA, Partner at **416.256.4000** or **rg@zeifmans.ca**.

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