



BIZEQUITYSM reports

short-short research reports on small business

'Cause I'm the "Taxman"

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'Cause I'm the "Taxman"

It's that time of year again. The time of year where everyone starts to feel a need to bring out a cliché. You know, the one about the two certainties in life. Death. And taxes. Well, the cliché is accurate, and I'll add that the tax preparation industry is definitely one that can grow, even during a recession.

Q EVEN DURING ECONOMIC MELTDOWNS, THE GOVERNMENT COLLECTS TAXES

You've got to remember that people can choose whether or not they want to go to Disneyland, buy an extra order of fries at McDonald's, purchase one more toy for Junior's stocking during the holidays, or one extra party favor for Sally's sweet sixteen. But they have no choice about taxes. Come April 15, they need to be done.

This is why it's great to be in the tax preparation business. Clients need you. And once you get a client, they oftentimes will stick with you through thick and thin. The relationship between a tax analyst and a client represents a pretty strong bond. Taxes aren't fun to do. The paperwork is intimidating, and the calculations are intellectually laborious. That's why it's no surprise that BizEquity.com, which supplies information on the value of small businesses in the U.S. (we've been referred to as the Zillow of small business values), reports an up tick in the valuations of tax preparation entities.

Q ECONOMIC MELTDOWNS ACTUALLY INCREASE THE NEED FOR COMPETENT TAX SERVICES



When times are tough, the focus is on money. Because of this, tax preparers represent added value because they can make the most of a person's return in terms of the only thing that matters to filers -- the refund. People look forward to getting refund checks from the government. Who doesn't? And there's no question that the citizens of this great nation want to get the maximum return. They need the money.

Photo: The recession is no problem as tax preparers' help out filers.

Recessions also have a positive effect on tax preparation businesses since people's financial lives become more complex. As an example, workers who have been downsized have to figure out exactly what to do with their unemployment income when it comes time to report it.

Others might be confused by actions being taken by the government that might affect their tax situations. Filers who are used to preparing their own returns might not be aware of all the new rules and all the tax deductions that might be available.

Still others might have decided to start a small business. Recessions oftentimes increase the number of self-employed people out there. When this happens, tax specialists take on a new meaning.

BY THE NUMBERS

Numbers used in this report are based upon the BizEquity database, which represents about 11.7 million businesses throughout the US.

LET'S LOOK AT SOME DATA

So, what changes have been observed when it comes to valuations? If you're in the tax business, you're going to like this. Here are some national numbers:

	# of Companies	Current Valuation	Old Valuation	% Change
National	35074	\$77,181	\$71,007	9%

Taking a sample of over 35,000 tax preparers, we see that the average valuation in the past was about \$71,000. The current overall valuation jumped 9% to a little over \$77,000. That's a great performance, and it provides statistical evidence to back up the theoretical underpinnings of this industry's recession-resistant nature.

CITIES WITH THE HIGHEST FREQUENCY OF TAX PREPARERS

Dying to know what the valuation changes are in the cities with the highest number of tax-related businesses? We've got you covered. Feast your eyes on the following table showing the top ten cities in terms of industry frequency.

Maximum Number of Businesses					
Rank	City	# of Companies	Current Valuation	Old Valuation	% Change
7	Columbus	187	\$69,159	\$51,870	33%
6	San Antonio	193	\$89,156	\$69,542	28%
3	Chicago	305	\$104,568	\$86,792	20%
9	Las Vegas	178	\$63,781	\$53,576	19%
8	Miami	182	\$93,199	\$80,151	16%
2	Los Angeles	398	\$69,980	\$60,882	15%
1	Houston	536	\$92,259	\$83,033	11%
4	Dallas	288	\$61,877	\$58,164	6%
10	Brooklyn	172	\$85,148	\$80,039	6%
5	San Diego	211	\$60,241	\$58,434	3%

The top ten cities show mostly double-digit gains in valuation. Columbus, Ohio, which has 187 businesses, displayed the greatest overall valuation growth rate, coming in at 33%. San Antonio, Texas, was second with a 28% valuation increase for 193 businesses. Houston, which had over 530 tax preparation entities within its city boundaries, generated an 11% appreciation number. Quite impressive.

The three areas with the lowest increases are San Diego, Dallas, and Brooklyn. Those cities scored valuation increases of 3%, 6%, and 6%, respectively. In a declining economy, those statistics can be considered remarkable.

Q TOP TEN AS RANKED BY VALUATION CHANGES

Highest Valuation				
City	# of Companies	Current Valuation	Old Valuation	% Change
Madison	63	\$195,430	\$171,979	14%
Anaheim	63	\$194,410	\$182,745	6%
Virginia Beach	50	\$157,616	\$151,311	4%
Fayetteville	58	\$156,952	\$152,243	3%
Salt Lake City	52	\$155,258	\$144,390	8%
Saint Louis	123	\$137,920	\$118,611	16%
New York	164	\$131,084	\$110,110	19%
Springfield	107	\$124,524	\$100,865	23%
Tampa	67	\$119,922	\$98,336	22%
Richmond	118	\$114,261	\$98,264	16%

Madison, Wisconsin, might not have the largest number of tax businesses, but it sure does have the highest average valuation per business according to BizEquity data. You're looking at a mean number of \$195,430. And that's up 14%!

Interestingly, one might have thought that New York would have been at the top of the list, but it came in a bit lower at number seven. Still, the average valuation per business of \$131,084 was up 19%. Richmond was at the bottom with \$114,261, but that area still saw an increase of 16% over the old valuation.

Q AND WHAT ABOUT THE PUBLIC COMPANIES?

How are the market caps doing for the publicly-traded entities? At the time of this writing (beginning of April), one might have supposed that the stocks for one or more of the three well-known tax-related businesses -- Intuit, H&R Block, and Jackson Hewitt -- would have been a little closer to a 52-week high. They aren't, but it's possible that their market caps will trend higher as we proceed through the post-tax season.

H&R Block's market cap currently sits at a little over \$6 billion, and Intuit is valued at \$8.9 billion. Jackson Hewitt, with a market cap of only \$145 million, has been having some financial problems and recently suspended its quarterly dividend. The financial crisis has also hit H&R Block; the company has been restructuring itself to reduce its exposure to businesses such as subprime mortgages. It's partly because of

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such exposure that its market cap has been suppressed. Like every other financial institution, the stocks of these companies have been hampered by the recession, the tight credit markets, and abysmal home sales.

Unlike the public companies, most private tax businesses don't have financial exposure. What they do have to worry about is clients going out of business. That could impact them in years to come if the recession continues to grind on.

For now, though, valuations in the tax industry are on a roll. The data sets are quite convincing in terms of the health of this sector.

MORE ABOUT BIZEQUITY

Business valuation can definitely be a scary thing, involving complex equations, analysis and expensive data sources. But at BizEquity, we try to make the process as easy as possible – and free. Keep in mind that a professional business valuation can easily cost \$10,000 or more. And, while there are various online business valuation calculators, they are often too simplistic.

Drawing from our database of more than 11 million businesses and intelligent algorithms, BizEquity offers tools that not only gives you an estimated valuation of your business, but also offers helpful insight into industry trends, as well as recommendations and insight into your business' operational strengths/weaknesses. Please note that any valuation you obtain on BizEquity should only be used internally and not be used to obtain credit or for any other commercial purposes.

CONTACT BIZEQUITY

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