

## When You Sell Your Business

### SELLER / BUYER OF BUSINESS - ALLOCATION OF PURCHASE PRICE

<u>Price Allocation</u>	<u>Seller Taxations</u>	<u>Buyer Deduction</u>	<u>Favors S, B, N</u>
Inventory	Ord - above basis	When sold	B
Equipment	Ord - above basis	5-7 years	B
Land	CG - above basis	Non depr	S
Building	CG/Ord - above basis	39 years	S
Goodwill	CG	15 years	N
Non Compete	Ord	15 years	B
Consulting Contract	Ord - earned income	When paid	B
CG - Capital Gain Ord - Ordinary Income			

### TAXABLE ASSET SALE

<b>Buyer - Advantages</b>	<b>Seller - Advantages</b>
<ul style="list-style-type: none"> <li>- Choose which assets to purchase</li> <li>- "Step-up" in assets' tax basis</li> <li>- Free of contingent liabilities</li> <li>- Union contracts can be terminated</li> <li>- Can change state of incorporation</li> </ul>	<ul style="list-style-type: none"> <li>- Can maintain corporate existence</li> <li>- Still own nontransferable rights (e.g. licenses, franchises, patents)</li> <li>- Can keep the corporate name (unless the name is sold)</li> </ul>
<b>Buyer - Disadvantages</b>	<b>Seller - Disadvantages</b>
<ul style="list-style-type: none"> <li>- Unable to carryover seller's tax attributes (e.g. NOL &amp; capital loss)</li> <li>- Bargain purchase tax cost</li> <li>- Nontransferable rights are lost</li> <li>- Loss of W/C and other ratings</li> </ul>	<ul style="list-style-type: none"> <li>- Double taxation - C Corporations</li> <li>- Higher taxed ordinary gains likely</li> <li>- For both buyer and seller, selling individual assets is more complex; often requires a lender's approval</li> </ul>

### TAXABLE STOCK SALE

<b>Buyer - Advantages</b>	<b>Seller - Advantages</b>
<ul style="list-style-type: none"> <li>- Seller's tax attributes survive</li> <li>- Obtain non transferable rights</li> <li>- Retain W/C and other ratings</li> <li>- Retain right to use corporate name</li> <li>- Retain favorable debt structure</li> </ul>	<ul style="list-style-type: none"> <li>- Avoid double tax - C Corporations</li> <li>- Single capital gain - no allocations</li> <li>- All liabilities transferred to buyer</li> <li>- For both buyer and seller - less complex; may avoid lender releases</li> </ul>
<b>Buyer - Disadvantages</b>	<b>Seller - Disadvantages</b>
<ul style="list-style-type: none"> <li>- No "step-up" in asset's tax basis</li> <li>- Inherit contingent liabilities</li> <li>- Union and benefit plan continue</li> <li>- State of incorporation unchanged</li> <li>- Minority shareholder "rights"</li> </ul>	<ul style="list-style-type: none"> <li>- Seller cannot pick assets to retain</li> <li>- Non transferable rights are lost</li> <li>- Requires obtaining S/H approval</li> <li>- Reduced price because of no buyer basis step up</li> </ul>