TAXES WHEN YOU SELL

The basics of how a business sale is taxed, how the deal structure changes what you keep, and why to plan early with a CPA.

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AT A GLANCE

- Taxes can take a large share of a sale. **How the deal is structured** can change your tax bill a lot.
- Key questions: is it an **asset sale or a stock sale**? How is the price **split among assets**? Is any of it paid **over time**?
- Plan with a **CPA at least a year before** selling. Many tax-saving steps must be taken in advance.

WATCH OUT

Tax rules are complex, change often, and depend on your business structure, state and situation. This guide is general US education only. Work with a CPA and tax attorney before you sign an LOI.

Why it matters

Two sales at the same price can leave the owner with very different amounts after taxes. Buyers and sellers often want different structures for tax reasons, so taxes are part of the negotiation.

Asset sale vs. stock sale

	Asset sale	Stock or membership sale
What's sold	The business's assets: equipment, customer lists, brand, goodwill	The owner's shares in the company
Buyers often prefer	Yes: they can deduct more of the price over time and avoid hidden liabilities	Less often
Sellers often prefer	Less often: some parts may be taxed at higher rates	Often: may be taxed mostly as capital gains
Common for	Most small business sales	Larger businesses, corporations

How the price is taxed

- **Capital gains**: profit on selling assets held more than a year, such as goodwill or shares, is generally taxed at lower long-term capital gains rates.

- **Ordinary income**: some parts, like certain equipment recapture, inventory, consulting agreements and non-compete payments, may be taxed at higher ordinary income rates.
- **Purchase price allocation**: buyer and seller agree how the price is split among assets, which changes the taxes for both.
- **State taxes** may also apply.

Other ideas to discuss with your CPA

- **Installment sale**: being paid over time can spread the tax over several years.
- **Qualified small business stock (Section 1202)**: owners of qualifying C corporation stock held for several years may be able to exclude much or all of their gain. The rules changed in 2025, so check current requirements.
- **Business structure**: S corporations, C corporations and LLCs are taxed differently in a sale.
- **Retirement and estate planning**: some strategies must be in place well before a sale.
- **Charitable giving**: some owners give shares to charity before a sale.

> EXAMPLE
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> **Joseph** got two similar offers for his shop. One was an asset sale with $250,000 allocated to a 5-year non-compete agreement, which would be taxed as ordinary income. His CPA showed that moving most of that to goodwill, taxed as capital gains, would save him a significant amount. The buyer agreed in exchange for a slightly longer transition period.

Step by step

1. **Talk to a CPA 1 to 2 years before selling.**
2. **Review your business structure** and any changes that might help.
3. **Model the after-tax result** of each offer, not just the price.
4. **Negotiate the price allocation** with tax in mind.
5. **Set aside money for taxes** from the sale proceeds.
6. **Plan your next steps** with a financial advisor. See **X-11 Life After the Sale**.

Common mistakes

- **Talking to a CPA after signing the LOI.**
- **Comparing offers before tax.**
- **Ignoring the price allocation.**
- **Spending sale proceeds** before taxes are paid.

Your checklist

☐ Book a planning meeting with a CPA

☐ Ask how your structure affects a sale

☐ Model after-tax results for each offer

- ☐ Discuss installment sales and allocation
- ☐ Set aside the expected tax bill at closing

Where to go next

- **X-07 Letters of Intent and Purchase Agreements**
- **X-11 Life After the Sale**
- **B-14 Business Taxes: What You Owe and When**

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