



# Quick Reference Guide: Entity Tax Strategies for Business Sales

## Structure Matters More Than Price for Tax Efficiency

How your business is structured impacts your taxes when you sell. Asset sales are common, but if you've written off equipment, part of the sale may be taxed at higher ordinary rates. Stock (equity) sales can sometimes reduce taxes, but they require stronger financial records and buyer scrutiny.

Entity Type	What Usually Happens	Biggest Tax Risk	Lever That Matter Most	What to Check Early
<b>Single-Member LLC</b>	Asset sale is standard and expected.	Equipment that has been heavily written off may cause a large portion of the sale to be taxed at higher rates.	Proper price allocation and understanding tax exposure before accepting an offer.	Review depreciation history and equipment resale values. Clean up bookkeeping before going to market.
<b>LLC - Partnership</b>	Most sell as asset sales (includes contracts, pipeline, and customer list)	Equipment that has been heavily written off may cause a large portion of the sale to be taxed at higher rates.	How the price is divided between equipment and goodwill.  Whether an equity sale is plausible.	Review depreciation history and equipment resale values. Clean up bookkeeping before going to market.
<b>S-Corp</b>	Most small S-Corps also sell as asset sales, even though selling stock can sometimes reduce taxes.	Heavily depreciated equipment can cause part of the sale to be taxed at higher rates. If the company converted from a C-Corp within 5 years, a corporate-level tax may still apply.	Deal structure (asset vs stock sale). Allocation of price between equipment and goodwill. Timing if there was a past C-Corp conversion.	Confirm when S-Corp status began and whether it was ever a C-Corp. Review equipment depreciation schedule. Ensure clean bookkeeping.
<b>C-Corp</b>	Buyers may push for asset sales, but sellers strongly prefer selling stock	Asset sales can result in two layers of tax — the company pays tax first, then the owner pays tax again when money is distributed.	Pushing for a stock sale. If asset sale is unavoidable, negotiating price and structure to offset higher taxes.	Confirm corporate status. Determine whether buyer is realistically open to a stock purchase. Assess historical compliance and liability exposure.

# LLC / S-Corp Strategies

For LLCs and S-Corporations, most sales are structured as asset deals. The strategies below outline practical steps to reduce tax surprises and improve flexibility as you approach a sale.

**Note:** A **red line** in the timeline indicates the latest recommended point to begin implementing that strategy.

Strategy	What This Actually Does (Plain English)	Who	3+ Years Away	~1 Year Away	3-6 Months Away
<b>Negotiate how the purchase price is allocated</b>	In an asset sale, the total price must be divided between equipment, inventory, goodwill, and other items. Equipment that has been heavily depreciated may be taxed at higher ordinary income rates. Goodwill is often taxed at lower capital gains rates.	CPA Attorney	Maintain accurate equipment and depreciation records. Avoid messy bookkeeping.	Decide your allocation position with your CPA before going to market.	Confirm intended allocation schedule is included in the purchase agreement and agreed by both parties.
<b>Control non-compete and consulting payments</b>	Consulting payments are often taxed at higher ordinary income rates. Buyers may allocate more dollars here for protection. Keeping these amounts reasonable can reduce higher-tax income.	Broker CPA Attorney	Build management depth so buyer does not need to rely heavily on you post-sale.	Define realistic transition support and responsibilities.	Negotiate scope and dollar amounts carefully in LOI and final agreement.
<b>Understand impact of equipment depreciation</b>	If you've written off trucks or equipment over the years, your tax basis may be low. When those assets are sold, part of the gain may be taxed at higher rates. Knowing this early prevents surprises.	CPA	Think about exit timing before making large equipment purchases. Avoid overly aggressive write-offs if a sale is likely soon.	Estimate equipment resale value versus remaining tax basis.	Use that estimate to negotiate price or structure if tax exposure is significant.
<b>Consider seller financing</b>	Receiving part of the purchase price over time may help with cash flow and may spread some taxes over multiple years. It usually does not eliminate taxes but can provide timing flexibility.	CPA Attorney	Build predictable revenue and customer stability to make structured payments more acceptable to buyers.	Evaluate risk versus benefit of carrying a note.	Negotiate strong note terms and protections if used.
<b>Push for a Stock Sale</b>	Selling stock instead of assets can reduce taxes because the company avoids depreciation recapture. However, buyers inherit company history and require deeper diligence and legal protections.	Broker CPA Attorney	Keep books organized and compliant. Stay current on payroll and tax filings. Avoid legal and sales tax issues.	Organize meticulous records to prove no liabilities from taxes or customers.	Include structure in the LOI. Be prepared to offer escrow or stronger legal protections

# C-Corp Strategies

Selling a C-Corporation without planning can result in two layers of tax. The strategies below focus on minimizing corporate-level tax and preserving as much of the sale proceeds as possible.

**Note:** A **red line** in the timeline indicates the latest recommended point to begin implementing that strategy.

Strategy	What This Actually Does (Plain English)	Who	3+ Years Away	~1 Year Away	3–6 Months Away
<b>Push for a stock sale</b>	Selling stock instead of assets usually avoids the company paying tax first and then you paying tax again when proceeds are distributed. Buyers must be comfortable inheriting company history.	Broker Attorney CPA	Keep compliance clean. Resolve payroll, sales tax, and legal issues early. Maintain organized corporate records.	Prepare for deeper buyer diligence. Identify buyers open to stock purchases.	Make stock sale intent clear in the LOI
<b>Use a personal goodwill structure</b>	In certain situations, part of the business value may belong to you personally rather than the corporation. Structuring this correctly can reduce company-level tax. This must be legally supportable and properly documented.	CPA Attorney	Avoid contracts that automatically assign all customer relationships to the corporation if this strategy might be used later.	Document how customer relationships are generated and who owns them. Prepare support before going to market.	Implement with proper legal documentation. This cannot be done casually or as a simple label change.
<b>Convert to S-Corp and wait out required holding period</b>	Converting from C-Corp to S-Corp may eliminate the corporate tax layer after a required 5 year waiting period. This is long-term planning, not a last-minute fix.	CPA Attorney	Must be done early. Plan exit timing around required holding period.		
<b>Qualified Small Business Stock</b>	If qualified, a C-Corp stock sale may allow some or all federal capital gains to be excluded after a 5-year holding period.	CPA Attorney	Ensure eligibility at stock issuance. Start and track the 5-year holding period.		

# Reach Out to These Resources

This guide was a collaboration between Legacy Entrepreneurs and some great CPA firms. Reach out to them to make your business tax efficient for a future sale.

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- If your business is a multi-member LLC (taxed as a partnership), buyers often prefer asset deals because an equity sale does not automatically give them a tax basis step-up in the company's assets. A special election called a §754 election can allow that adjustment, but it adds complexity and does not always eliminate buyer resistance.
- Depreciation recapture (Internal Revenue Code §1245) is taxed in the year of sale, even if you receive payments over time. Installment sales only defer the capital gain portion of a transaction — not the recapture portion.
- In S-Corp transactions, a §338(h)(10) election allows a stock sale to be treated as an asset sale for tax purposes. This gives the buyer a step-up in asset basis while keeping the legal structure as a stock transfer. The after-tax economics should be reviewed carefully before agreeing to this approach.
- Personal goodwill strategies are most relevant in C-Corporations where a corporate-level tax would otherwise apply. This requires that the individual, not the corporation, genuinely own key customer relationships.

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- Higher tax exposure on equipment generally comes from depreciation recapture, which applies when assets that have been written down for tax purposes are sold above their remaining tax basis.
- If your S-Corp converted from a C-Corp within the past five years, a Built-In Gains tax (Internal Revenue Code §1374) may apply. This rule can create a corporate-level tax on gains that existed at the time of conversion.
- Installment sales can help spread capital gains over time, but they do not defer depreciation recapture income.
- Personal goodwill is closely scrutinized by tax authorities and must reflect real ownership of customer relationships by the individual before a sale is contemplated.
- Transaction structure often has a greater impact on your after-tax proceeds than small changes in purchase price.
- State taxes and transaction costs should always be considered when estimating net proceeds.

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- Single-member LLCs and partnerships are generally treated as asset sales for tax purposes, even if the transaction is structured legally as an ownership transfer. By contrast, S-Corps and C-Corps can qualify for true stock sale treatment for tax purposes if structured correctly.
- If a buyer insists on an asset sale, it may be appropriate to negotiate a price adjustment (tax gross-up) to compensate for the additional tax exposure created by that structure.
- A practical rule-of-thumb for estimating depreciation recapture exposure is approximately 9–10% of the amount subject to recapture, though individual modeling is required.

## And if you're selling your business Reach out to Legacy Entrepreneurs



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