

FOR EXECUTIVES SEEKING TO BUY, SELL, OR RECAPITALIZE BUSINESSES

Stock Sale Vs. Asset Sale

An Overview of Tradeoffs

There are two primary ways of structuring the sale of mid-market companies: Stock Sale and Asset Sale. This document compared the trade offs involved with each of these approaches. Acquirers should keep in mind that regardless of the tradeoffs shown below, asset sales may not be practical in some cases for contractual or other reasons. In such cases, stock sale is the only way to go.

Stock Sale Vs. Asset Sale Table

	Asset Sale	Stock Sale
Legal Risk	No legal liability for the corporation prior to the purchase	Legal liability for the corporation prior to the purchase can be mitigated if seller is willing to sign an indemnification agreement
Cash Flow	Most of the assets purchased will be depreciable over 3-30 years with the average being approximately 10 years. This means that you may write off approximately a tenth of the purchase price every year. When you sell, you typically pay back the government for all the deductions you took. Advantage: Time value of money	Low depreciable asset base means you do not get benefits of the excess depreciation you can take. On the upside, there is no depreciation recapture tax at the time of sale.
Governmental	Administrative work to the extent you need to file Corporation, tax & employment application before the close of escrow.	Corporation, tax & employment numbers & documentation in place – any changes can be done at a convenient time at your own pace.
Other Taxes	Sales Tax on FF&E	No Sales Tax
Employees	Rehire employees – administrative hassle with hiring, benefits, payroll processing, etc. before the close of escrow	Employee contracts continue. Any changes can be made at a convenient time and pace.

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