

Abstract: Business owners sometimes decide to put their companies on the market. When doing so, they may focus on the federal tax implications of a sale. But there will be state tax implications, too. This brief article touches on some key issues regarding state taxes.

State taxes affect business sales, too

For various reasons, business owners sometimes decide to put their companies on the market. To successfully negotiate the sale of a business, it's critical to understand the tax implications. Armed with this knowledge, you can assess the impact of various transaction structures and sales price allocations on your net proceeds from the sale and may be able to adjust the sales price accordingly.

Business owners tend to focus on the federal tax implications of a sale, while they may ignore state taxes. Now that federal tax rates are lower than they've been in the past, state taxes may take on added significance. If you're contemplating relocating or retiring to another state, it may make sense to consider moving before you sell the business — especially if the new state has low, or even no, income tax.

Before you attempt this strategy, however, be sure to consult a qualified tax advisor. Changing your domicile and residence for tax purposes isn't like flipping a switch. You'll need to take several specific actions to demonstrate your intent to establish a permanent place of abode in the new state, such as obtaining a driver's license, registering to vote, and becoming involved with local organizations and activities.

Keep in mind, too, that there may be rules about the number of days spent in the state. So, you may have to do more than take the steps above to show that you're a resident of a new state. For instance, if you live in your "old" state most of the year and spend only a couple months in your new state, you could find that, at least for tax purposes, you're deemed a resident of both states. We can help you prepare for the best federal and state tax results of a business sale.