

The Buyer's Perspective on Asset Allocation in an S Corporation Purchase

As you've already learned in [Buying an S-Corp](#), an asset sale is the preferred overall deal structure for buyers, but how the assets are allocated in an asset sale can also favor the buyer or the seller more. Wondering what we mean by asset allocation? Head over to [Asset Sale vs. Stock Sale](#) to understand the bigger picture.

The following table provides an outline of the different "classes" that the IRS provides for allocation as well as the buyer's perspective toward which classes are preferred for a higher or lower allocation amount. If the shoe is on the other foot, check out [Selling an S-Corp](#) to see the seller's perspective. Our team at s-corp.biz is here to help small businesses with all things s-corp, give us a call!

IRS Asset Class	Type of Assets	The Buyer's Perspective
Tangible Assets		
Class I	<ul style="list-style-type: none">Cash and general deposit accounts <p>(Including savings and checking accounts, but does not include certificates of deposit held in banks, savings and loan associations, and other depository institutions).</p>	No Preference
Class II	<ul style="list-style-type: none">Actively traded personal property such as publicly traded stock and U.S. Government securitiesCertificates of depositForeign currency	No Preference

IRS Asset Class	Type of Assets	The Buyer's Perspective
Class III	<ul style="list-style-type: none"> Accounts Receivable 	No Preference
Class IV	<ul style="list-style-type: none"> Stock in trade Inventory 	High amount in allocation is preferred because it provides an immediate deduction against ordinary income
Class V	<ul style="list-style-type: none"> All other tangible assets that do not fall under one of the above classes <p>(Includes furniture, fixtures, real estate, vehicles, equipment etc.)</p>	<p>The buyer's preference may depend on the type of assets falling under this class.</p> <p>For personal property assets such as furniture, fixtures etc., a high amount in allocation is preferred because it provides an immediate deduction against ordinary income, although the buyer may have to pay sales tax on these purchases.</p> <p>For real estate assets, a low amount in allocation is preferred because real estate has a long depreciation term.</p>
Intangible Assets		
Class VI	<ul style="list-style-type: none"> Non-compete covenants Workforce in place Business books and records, operating systems, any other information base etc. Licenses, permits, etc. Franchise, trademark, or trade name (exception for certain professional sports franchises) All other intangible property that does not fall under Class VII 	Low amount in allocation is typically preferred because it is deducted over 15 years.
Class VII	<ul style="list-style-type: none"> Goodwill and going concern value 	Low amount in allocation is typically preferred because it is deducted over 15 years. However, if the buyer has plans to resell the business in the future, this could vary.

Need some help or advice on buying or selling an s-corp? [Drop us a line!](#) We're always happy to help in any way we can.