

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

As you've already learned in [Selling an S-Corp](#), a stock sale is preferable for sellers, but buyer's will typically want an asset sale. In the case of an asset sale, there are still decisions that help favor the seller, and a big one is asset allocation. Not sure what we're talking about? Check out [Asset vs. Stock Sale](#) for a quick rundown.

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

IRS Asset Class	Type of Assets	The Seller'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 Seller'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 	Low amount in allocation is preferred because it minimizes 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 seller'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 low amount in allocation is preferred because it minimizes gain that will be treated as ordinary income.</p> <p>For real estate assets, a high amount in allocation is preferred because it provides long-term capital gain treatment.</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 taxed as ordinary income over the term of the covenant.
Class VII	<ul style="list-style-type: none"> Goodwill and going concern value 	High amount in allocation is preferred because it is taxed as long-term capital gain.

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.