

Buy a Business

Asset Purchase versus Stock Purchase

Determining whether to purchase the entire corporation (stock purchase) or only certain assets of the business (asset purchase) requires a thorough review of the business. Your tax advisor should be consulted to determine the structure of your future business and advantages or disadvantages associated with an asset purchase or stock purchase.

Asset Purchase versus Stock Purchase

Advantages

- No responsibilities for the operation or liability of the business prior to the date of purchase.
- Amounts paid for furniture, fixtures and other assets can be depreciated.
- New corporation is not responsible for employee earned vacations. Employment begins the date of purchase only if new business owner chooses to hire employees.
- New corporation begins with a new credit history and does not inherit worker compensation or any negative corporate history.

Disadvantages

- New corporation will not have history with suppliers or customers and may have to qualify or negotiate.
- New corporation will have to interview and rehire employees; possibility key employees will not work as a new employee for new business owner.
- New corporation may have to negotiate new leases or receive assignments from previous owner and property owner.
- New corporation will have to apply for new business licenses.

Stock Purchase versus Asset Purchase

Advantages

- The corporation, employees and business documents are in place.
- Leases, licenses, contracts and credit terms are already in place.
- No taxes are due because of the purchase. Sales tax is not payable on furniture, fixtures and equipment due to the purchase.
- Operating capital should already be in place.
- No new purchase or lease deposits are necessary.
- Purchase of business does not require any public notice.

Disadvantages

- New business owner is legally responsible for the operation and liabilities of company prior to the date of purchase.
- New business owner assumes the current asset depreciation schedules, which may be fully depreciated.
- Tax and legal advisors are more receptive to a new corporation formation due to past and often unknown liability issues.