**8820. What are the tax consequences of using an asset sale to liquidate a C corporation, rather than transitioning the business through some other form of succession planning?**

Liquidation is the winding down of a corporation’s affairs until it is completely divested of all assets.[[1]](#footnote-1) If a corporation decides that the best option is to liquidate, rather than transition ownership of the company through another form of succession planning, there are a variety of methods that can be used in such liquidation.

Consistent witht the general treatment of corporate taxation as an active business, the liquidated company is generally subject to double taxation because both the corporation and the shareholders will be liable for taxes on the sale proceeds. In an asset sale, the corporation first sells all of its assets to a buyer, recognizing gain on the transaction. The gain is equal to the difference between the corporation’s basis in the assets and the amount realized.[[2]](#footnote-2) After taxes and expenses, the corporation then distributes any excess to its shareholders, which is treated as a second transaction. The proceeds distributed to the shareholders are then subject to tax at the individual level.[[3]](#footnote-3)

The asset sale can also be structured as an installment asset sale, which allows the buyer to purchase the company over a period of time using a note or other debt obligation (see Q 8819 for a discussion of the installment method of taxation).[[4]](#footnote-4) Despite this, if the entire business is sold through an installment sale, a special rule applies that requires the business to allocate the selling price and payments between three classes of assets: (1) assets sold at a loss, (2) real and personal property eligible for the installment method of taxation, and (3) property that is ineligible to be sold in an installment sale, such as publicly traded securities and inventory. Gain on the sale of property that is ineligible for the installment method of taxation must be reported in the year of sale, rather than over the time period in which the installment payments are made.[[5]](#footnote-5)

1. . Treas. Reg. §1.332-2(c). [↑](#footnote-ref-1)
2. . IRC Sec. 336(a). [↑](#footnote-ref-2)
3. . IRC Sec. 331(a). [↑](#footnote-ref-3)
4. . IRC Sec. 453B(a). [↑](#footnote-ref-4)
5. . See IRS Pub. 537. [↑](#footnote-ref-5)