



## The Law Offices of Kidwell & Kent

john kidwell  
Owner and Managing Partner  
9695 C Main Street  
703-764-0600  
jkidwell@kidwellkent.com  
www.kidwellkent.com



# Sale of Sole Proprietorship





# Sale of Sole Proprietorship

Typically, you will transfer your interest in the business to others in return for cash or property. This will generally result in capital gain (or loss) or ordinary gain (or loss).

## How is the sale of an interest in a sole proprietorship taxed?

The sale of a sole proprietorship is treated as a sale of the assets of the sole proprietorship. The gain or loss on each asset of the sole proprietorship is calculated separately. Assets may be capital assets, depreciable property used in the business, real property used in the business, or inventory.

Thus, in a sale of a sole proprietorship:

- The sale of capital assets results in capital gain or loss.
- The sale of inventory results in ordinary income or loss.
- The sale of depreciable property or real property used in the business and held for more than one year results in gain or loss from Section 1231 property. If Section 1231 gains exceed Section 1231 losses, net Section 1231 gains are treated as capital gains. If Section 1231 losses exceed Section 1231 gains, net Section 1231 losses are treated as ordinary income.

The buyer and seller have a certain amount of flexibility to allocate consideration and fair market value to assets in a written agreement. In the absence of such an agreement, consideration is allocated to assets under a complex multiple-class system.

**IMPORTANT DISCLOSURES** This presentation is not intended to and does not provide investment, tax, legal, or retirement advice or recommendations. The information presented here is not specific to any individual's personal circumstances. To the extent that this material concerns tax matters, it is not intended or written to be used, and cannot be used, by a taxpayer for the purpose of avoiding penalties that may be imposed by law. Each taxpayer should seek independent advice from a tax professional based on his or her individual circumstances. These materials are provided for general information and educational purposes based upon publicly available information from sources believed to be reliable — we cannot assure the accuracy or completeness of these materials. The information in these materials may change at any time and without notice.



The Law Offices of Kidwell & Kent  
john kidwell  
Owner and Managing Partner  
9695 C Main Street  
703-764-0600  
jkidwell@kidwellkent.com  
www.kidwellkent.com

