

SUCCESSOR LIABILITY FOR CERTAIN TAXES WHEN A BUSINESS OR ITS ASSETS ARE TRANSFERRED

Whenever a business or its assets are transferred outside the ordinary course of business, and a lien for unpaid sales or withholding taxes has been filed, in certain situations the new owner can be liable for the amount of the lien and any related interest and penalties, and any other unpaid sales or withholding taxes. In order to avoid liability for these taxes, the potential new owner must send a notice to the Commissioner of the Department of Revenue at least twenty days before taking possession of the assets or paying the purchase price. That notice must contain information regarding the transfer of the business or its assets, the terms and conditions of that transfer, and the tax identification number of the business being transferred.

The Commissioner then has twenty days to notify the potential new owner of any additional sales or withholding taxes (including interest and penalties); the Commissioner may also notify the potential new owner of the amount needed to satisfy the lien, or that there are no taxes due in addition to the amount shown on the lien, or that additional tax returns are due. If the Commissioner fails to give the required notice within the twenty-day period, the potential new owner is not liable for any taxes other than those shown on the lien.

These rules apply to transfers of businesses or business assets, whether by sales or gift. In the case of sales transfers, the amount of the tax liability cannot exceed the purchase price. In the case of gift transfers, the tax liability is presumed to be the value of the transferred assets or business. Also, for transfers by gift, the tax liability can be avoided by returning the gifted property. These rules also apply to changes in the type of business entity or changes to the name of the business, so long as one business is being discontinued and another one started.

If an IRS Notice of Federal Tax Lien has been filed, contact the IRS to apply for a Certificate of Discharge. See IRS Publication 783 for more information.