F REORGANIZATION FAQS

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F reorganizations are a powerful but often misunderstood tax planning tool used in business restructurings and transactions. Whether a business is preparing for a sale, navigating a merger or acquisition, or changing its legal structure, an F reorganization can provide flexibility while helping avoid unintended tax consequences. The following FAQs address common questions business owners and buyers have about how F reorganizations work, when they are typically used, and why they may play a role in transaction planning.

What is an F reorganization?

A business restructuring qualifies as an F reorganization when there is “a mere change in identity, form, or place of organization.” If a reorganization qualifies, it’s effectively a tax-free way for a business to change its legal structure without disrupting business or operational continuity,

What are the tax benefits of an F reorganization?

An F reorganization is beneficial for both buyers and sellers from a tax perspective. With a bit of extra legwork done by a tax consultant, buyers will be able to treat the sale like an **asset purchase**, which gives them step-up in basis of assets. This increases depreciation deductions and reduces gains when they sell those assets in the futures. Sellers can potentially still get favorable long-term capital gains tax rates on a significant portion of the transaction.

When are F reorganizations typically used?

F reorganizations can be used in many different scenarios, including:

- A business is preparing for or completing a sale
- An S corporation is involved in a merger or acquisition
- A business wants to change its tax domicile or state of incorporation

In each of these scenarios, an F reorganization helps you avoid negative tax consequences.

Are F reorganizations only for S corporations?

No. F reorganizations can be used by any corporation. S corporations face unique tax and ownership limitations, which make tax-free restructurings difficult to achieve. An F reorganization can help preserve an S election in the continuing entity so that the business doesn’t have to file as a C corporation or refile for a new S election.

I’m a buyer. Why do I want to do an F reorganization?

When an F reorganization is used — and certain other elections are made — you can receive a step-up in basis of the business assets, just as if you had purchased them outright. You typically wouldn’t get this benefit in a traditional stock purchase.

The step-up in basis matters: a higher asset value gets you larger depreciation deductions, reducing taxable income. And when those assets are later sold, you’ll generally recognize less gain since the basis has already increase to reflect fair market value.

I am thinking of selling my business and I think that an F reorganization might help me. What’s my first step?

Your first step is to talk to a tax advisor who understands both S corporation rules and business transaction planning. The timing and sequencing of F reorganizations matter. So, before you start negotiating a sale, get in touch with a qualified tax planner. They’ll likely reach out to attorneys that can help complete the F reorg if it turns out an F reorganization the best option for you. If it’s not, they can help you sell your business to achieve your strategic goals and keep your tax burden to a minimum.