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## Sale or Purchase of a Business

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Prior to purchase of a business, purchasers should conduct proper due diligence to determine if any tax liabilities exist on the business. Any outstanding taxes resulting from the previous owner will become the debt of the purchaser, and liens will remain attached to the tangible personal property included in the sale.

In addition, the purchase of a business will result in a use tax liability on the purchase price of any tangible personal property.

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### Outstanding Tax Liabilities

The purchaser of the business will be liable for any unpaid sales or use tax liabilities of the previous owner(s). The purchaser is required to withhold a sufficient amount of the purchase money to cover any taxes due and unpaid until the seller can provide proof that any such taxes have been paid.

Purchasers are cautioned that liens for the seller's outstanding taxes may have attached to the property offered for sale. City tax liens attach automatically by operation of law and do not need to be noticed or recorded to be effective. Purchasers are encouraged to require the seller to furnish a *Certificate of Taxes Due* detailing the outstanding liability, if any, prior to sale. Due to the confidential nature of the information, the seller must authorize the Finance Director to release it. A *Certificate* can be requested by contacting the Revenue Division. Separate *Certificates* are issued for sales and use tax and for accommodations tax and cost \$10 each.

In addition, purchasers should contact Jefferson County to ensure no other liens have been recorded on assets of the business.

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### Final Return

Upon the sale of a business, the seller shall make a return and pay all taxes due within ten (10) days of the sale.

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### Use Tax on the Purchase

The *Lakewood Municipal Code* imposes a use tax upon the purchase price paid for tangible personal property acquired with the purchase of a business for use or consumption in the operation of the business. This includes property taken in exchange for

assumption or forbearance of outstanding indebtedness, but excludes inventory held for resale. Because use tax is transactional (*i.e.*, imposed each time a taxable event occurs) Lakewood use tax is due even if the seller or transferor has previously paid Lakewood sales/use tax on the property sold.

The taxable basis shall be the price of such property as recorded in the bill of sale or purchase agreement. Where the transfer of ownership is a "package deal" in a lump-sum transaction, the sales tax shall be based on the book value established by the purchaser for income tax depreciation purposes or, if no such value is established, then the fair market value.

In determining the fair market value, the City uses the best information available, including personal property tax declarations filed with the Jefferson County Assessor, and may also require independent appraisals of the property.

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### Filing the First Return of New Owner

Sales/use tax returns and payments shall be made monthly before the twentieth (20<sup>th</sup>) day of the following month.

Use tax on the tangible personal property of the purchased business must be reported on the first return of the business on Schedule A/Line 8 of the City sales/use tax return.

Returns can be accessed online at Lakewood Business Pro with an established user account. The City does not mail out return forms.

See *Tax Compliance Guide* – Sales Tax

See *Tax Compliance Guide* – Use Tax

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### Examples

1. Sally Smith is considering buying Business A for \$1,000,000, with tangible personal property of \$600,000 to be documented in the purchase agreement. As part of the due diligence process, Ms. Smith obtains the authorization of the seller to make an inquiry with the City regarding outstanding tax liabilities. She contacts the City

and pays \$20 to get a Certificate of Taxes Due for both sales tax and use tax.

The purchase takes place on June 30. Business A must notify the City of the change in ownership and file its final return by July 10. Ms. Smith must pay use tax of 3% (\$18,000) on the value of the tangible personal property as identified in the purchase agreement. Payment of the use tax must be made to the City on the first sales/use tax return.

2. Same scenario as Example 1, but Ms. Smith learns that Business A has an outstanding sales tax liability of \$2,000. She withholds \$2,000 of the purchase money to cover taxes due and unpaid until Business A can provide proof that the taxes have been paid. All other actions will be consistent with those in Example 1.
3. Same scenario as Example 1, but Ms. Smith learns there are tax liens on some of the assets of Business A. Ms. Smith chooses to enter into the purchasing contract anyway and assume the liabilities. All other actions will be consistent with those in Example 1.

FOR THIS TOPIC, INDUSTRY, OR BUSINESS SEGMENT. IT IS PROVIDED FOR THE CONVENIENCE OF TAXPAYERS AND IS NOT BINDING UPON THE CITY. IT IS NOT INTENDED FOR LEGAL PURPOSES TO BE SUBSTITUTED FOR THE FULL TEXT OF THE LAKEWOOD MUNICIPAL CODE AND APPLICABLE RULES AND REGULATIONS. THIS GUIDE DOES NOT CONSTITUTE A CITY TAX POLICY.

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### Contact Us

For additional assistance, please contact us:

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Revenue Division  
480 S. Allison Parkway  
Lakewood, CO 80026

(303) 987-7630

[www.lakewood.org](http://www.lakewood.org)

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### Related Topics

Apartment Building & Property Management  
Companies  
Business Registration & Licensing  
Certificate of Taxes Due  
Sales Tax  
Use Tax

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### Citations

*Lakewood Municipal Code*

§ 3.01.020 Definitions – Sale or Sale and Purchase  
§ 3.01.120 Property and Services Taxed (Sales Tax)  
§ 3.01.130 Collection of Sales Tax  
§ 3.01.210 Property and Services Taxed (Use Tax)  
§ 3.01.220 Collection of Use Tax  
§ 3.01.260 Recovery of Taxes, Penalty, and Interest  
§ 3.01.270 Tax Lien – Exemption from Lien

### Regulations

§ 3.01.270(1)(d) Sale of Business by Owner  
§ 3.01.020 Sale or Sale and Purchase

THIS GUIDANCE IS A SUMMARY IN LAYMAN'S  
TERMS OF THE RELEVANT LAKEWOOD TAX LAW