Very Few Small Businesses Sell for More Than $1 Million; Even Fewer Would be Subject to Fair Share

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Will small business owners be subject to the proposed Fair Share tax if and when they sell their businesses? Very unlikely. Most small businesses do not sell for net gains even close to $1 million, the taxable income threshold for Fair Share. Under Fair Share, only the portion of a tax filer’s personal income above $1 million would be subject to the additional 4 percent tax. Fewer than seven of every thousand tax filers - including small business owners - have annual incomes above the $1 million threshold, and thus only these few filers would pay any Fair Share tax.

While there is no official source for comprehensive data on small business sales in Massachusetts, researchers at BizBuySell.com attempt to capture most small business sales, with a focus on businesses selling for less than approximately $3.5 million – a reasonable cutoff for what most of us would consider an upper bound value for a “small business.” The BizBuySell data cover an almost 6-year period, from the first quarter of 2017 through the third quarter of 2022.

During this period, for the roughly 1,400 sales captured in the data, the median sale price in Massachusetts averaged less than $290,000. Just 123 Massachusetts business sales with sale prices between $1 million and roughly $3.5 million appear in the data. On average, this is just 21 small business sales per year with million-plus dollar prices.

But even for the owners who do manage to sell their business for more than $1 million, this does not mean they necessarily would owe any Fair Share tax. Many costs are deducted from the sales price when determining the resulting “net gain” or taxable income – and it is only a filer’s taxable income above $1 million that is subject to the Fair Share tax. Deductions include such things as the original purchase price of the business, the depreciated value of any property, equipment, or inventory, and the amount of “cash on hand” for business operations – as well as realtor and legal fees incurred as part of the sale. Taken together, these deductible costs greatly reduce the taxable income resulting from a business sale. This means that a typical business would have to sell for much more than $1 million in order for the sale to result in taxable income above $1 million.

Beyond deductions, how a business sale is structured and the ownership structure of a business also will affect whether sellers would pay any Fair Share tax. Many business sales occur over several years, significantly reducing the amount of taxable gain a business seller receives in any one tax year. Further, a business may have multiple owners, among whom the net gain from a sale is divided. If a small business

Key Takeaways

- Few small businesses are sold each year for more than $1 million.
- The taxable gain from the sale of a business typically is significantly less than the amount for which the business is sold.
- A business sale may occur over several years and the profit from the sale may be divided among multiple owners, reducing the likelihood that sellers will pay any Fair Share tax on the proceeds of the sale.
sells for a net gain of $3 million (which would be a very unusual event) and if this amount were divided among three owners with equal shares in the business, each of the owners’ share ($1 million) of the gain would be less than the threshold at which the Fair Share tax would be triggered.

In short, for each of the many reasons outlined above, very few small businesses ever would sell for amounts that would require the sellers to pay any Fair Share tax on the proceeds from the sale. For the handful of annual sales that do result in Fair Share tax liability, the tax would apply only to the portion of taxable income above $1 million.