Dissolution and Winding Up a Business

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Maintained

This practice note discusses the voluntary ***dissolution*** and ***winding up*** of a for-profit business. Closing a business is not as easy as locking the doors and making an announcement. The principals of the business must take specific steps to end a business.

The most common way to close a small business that has failed is an out-of-court ***dissolution*** and wind down by current management. The exact mechanics to dissolve and ***wind up*** a business generally depends on the type of business and state law. The failure to properly dissolve and ***wind up*** the affairs of the business could result in significant consequences for the individual partners, members, or shareholders of the business.

This practice note provides general guidance on ***dissolution*** and ***winding up*** a business as follows:

- ***Dissolution***
- ***Winding Up***
- *Tax Consequences*

For related information, see *Closing a Business **Checklist***. For information about dissolving a business in Delaware, see ***Dissolution Checklist** (DE Corporation)*, ***Dissolution** (DE LLC)*, and ***Dissolution** (DE Corporation)*. For a Delaware form certificate of ***dissolution***, see *Certificate of **Dissolution** (DE Corporation)*. For additional liquidation resources, see *Out-of-Court Restructuring and Liquidation Alternatives Resource Kit*.

To compare state laws on ***dissolution***, see the Corporation: ***Dissolution*** and Limited Liability ***Company***: ***Dissolution*** topics in the *Business Entities State Law Comparison Tool*.

Dissolution

Companies have several options to effectively close their business. A ***company*** can liquidate its assets by filing a *Chapter 7* bankruptcy case or a *plan of liquidation* in a *Chapter 11* bankruptcy proceeding. For more information on the bankruptcy *liquidations*, see *Chapter 7 Liquidation* and *Chapter 11 Liquidating Plans*. ***Companies*** or creditors seeking to liquidate a ***company***'s assets outside of bankruptcy may choose an *assignment for the benefit of creditors* or a *receivership* because, among other things, such actions generally involve less judicial oversight and increased flexibility. For information and resources on such options, see *Out-of-Court Restructuring and Liquidation Alternatives Resource Kit*. ***Companies*** can also choose to dissolve and ***wind up*** their businesses.

Dissolution begins the process by which the business legally ends (without court supervision or intervention). ***Dissolution*** is not synonymous with termination of the business; rather, ***dissolution*** signals the end of the ongoing business and is followed by a ***wind up*** period during which the affairs of the business are settled. The business is terminated at the end of the ***wind up*** period. Voluntary ***dissolution*** occurs when the partners, members, or shareholders choose to close their business and generally occurs upon the (1) occurrence of an event that triggers ***dissolution*** as set forth in the business operating agreement or (2) a vote of the partners, members, or shareholders. The ***dissolution*** requirements vary from state to state. In most states, legal entities must be dissolved by formal action and sending certain filings or notifications to the appropriate state governing entity. No matter the corporate form, the obligations of the business upon ***dissolution*** are similar.

The question of which option is best for a ***company*** depends on several factors. ***Dissolution*** is generally less expensive than the alternatives mentioned above. ***Dissolution*** is the simplest and least costly form of liquidation because it requires no formal proceedings, but it works only if current management is willing to stay on and complete the process, and the creditor body does not oppose it. A ***company*** may choose ***dissolution*** when the ***company*** (and its principles) do not need bankruptcy or other judicial protection/oversight. For instance, ***dissolution*** may be preferable when (1) litigation or claim disputes are unlikely and (2) creditors will be paid in full. An *insolvent* ***company*** may still prefer to dissolve if it has creditors that are willing to work with the ***company*** and negotiate a resolution to any outstanding claims. While most business owners will be able to ***wind up*** the ***company***'s business (and at the same time protect their own personal assets) without filing for bankruptcy, if the client's business has significant debts (and creditors who won't settle for less than they are owed), a filing with the bankruptcy court under Chapter 7 of the Bankruptcy Code may be the only viable option.

The general procedures for dissolving a partnership, limited liability ***company***, and a corporation are discussed below. Note, however, the exact requirements are based on state law.

***Dissolution of a** Partnership*

The *partnership agreement* generally governs the ***dissolution*** of a partnership. All partnerships continue to function after ***dissolution*** until they ***wind up*** all of their affairs. This includes the liquidation of all partnership property, settlement of outstanding partnership debts, and distributions of any remaining assets to the remaining partners.

In most jurisdictions, if the dissolving partnership is registered with the state, it must file a certification of cancellation (or similar document) of its registration after the ***winding up*** of its affairs has been completed. A sample form certificate (or similar document) is typically available for download at the Department of State website. Requirements for the content of the certificate of cancellation vary by state. The certificate of cancellation typically must contain (1) the name of the partnership, (2) the date of partnership registration, and (3) the signatures required under state law. In some jurisdictions, the reason for filing the certificate of ***dissolution*** or cancellation must also be included. The completed and signed certificate of ***dissolution*** or cancellation, along with the required fee, must be delivered to the Department of State to effect the ***dissolution***. Counsel should consult the appropriate Department of State website for details on the filing process.

As part of the ***dissolution*** process, a partnership must also perform any actions required for withdrawing its authority to do business in foreign jurisdictions where it is qualified to do business. Counsel should visit the websites for each applicable state in which the partnership is conducting business to determine the process for withdrawing from that state. The withdrawal from each state should be completed prior to filing the certificate of cancellation in the state of formation.

The events that lead to the ***dissolution*** of a general partnership, limited partnership, and limited liability partnership are described below.

General Partnership

Depending on the state law of the jurisdiction where the partnership was formed, the following are events that may cause the ***dissolution*** of a general partnership:

- Withdrawal by a partner in a partnership at will
- In a partnership for a definite term or a particular undertaking, the express will of all of the partners to ***wind up*** the partnership's business, the expiration of the term, or the completion of the undertaking
- An event specified in the partnership agreement occurs that results in the ***winding up*** of the partnership's business
- An event that makes it unlawful for all or substantially all of the partnership's business to be continued –or–
- A judicial determination, upon application by a partner, that the economic purpose of the partnership is likely to be unreasonably frustrated or it is not reasonably practicable to carry on the partnership business either in conformity with the partnership agreement or as a result of another partner's conduct

For the requirements in each state, see ***Dissolution** State Law Survey (General Partnership)*.

Limited Partnership

Depending on the state law of the jurisdiction where the limited partnership was formed, a limited partnership typically dissolves under any of the following circumstances:

- At the occurrence of an event designated by the *limited partnership agreement* as causing ***dissolution***
- By consent of all *general partners* and a specified number of *limited partners*
- After the withdrawal of a general partner, unless the partnership agreement allows continuation
- After the withdrawal of the last general partner, unless the limited partners admit a new general partner in accordance with the partnership agreement or with state law
- After the withdrawal of the last limited partner, unless another limited partner is admitted in accordance with the partnership agreement or with state law –or–
- By court order

For the requirements in each state, see ***Dissolution** State Law Survey (LP)*.

Limited Liability Partnership

Although varying by state, a limited liability partnership typically dissolves under any of the following circumstances:

- Withdrawal by a partner in a partnership at will
- In a partnership for a definite term or particular undertaking, the express will of all of the partners to ***wind up*** the partnership's business or the expiration of the term or the completion of the undertaking
- An event agreed to in the limited liability partnership agreement that results in the ***winding up*** of the partnership business
- An event that makes it unlawful for all or substantially all of the business of the partnership to be continued
- On application by a partner, a judicial determination that the economic purpose of the partnership is likely to be unreasonably frustrated or it is not reasonably practicable to carry on the partnership business either in conformity with the partnership agreement or as a result of another partner's conduct –or–
- By court order

Dissolution of a Limited Liability Company

The LLC agreement generally governs the ***dissolution*** of a *limited liability **company*** (LLC). Members of an LLC may elect a date for the ***dissolution*** of the ***company*** in its *Articles of Organization* or *Limited Liability **Company** Operating Agreement*. The absence of a date or time in these documents indicates the ***company*** will exist perpetually. The operating agreement may also contain events of ***dissolution*** which trigger the ***dissolution*** process. If one of the ***dissolution*** or termination events occurs, the certificate of organization and the operating agreement of the LLC should be reviewed to determine whether these events will trigger the ***dissolution*** or termination of the LLC. Alternatively, ***dissolution*** of the ***company*** may be triggered by the vote or written consent of at least a majority in interest of the members, subject to any provisions in the operating agreement. ***Dissolution*** may also occur if no members are remaining.

State laws frequently provide for the ***dissolution*** of an LLC if a member files for bankruptcy. Some states also include a provision requiring termination upon a member's filing for bankruptcy, unless the remaining members vote to continue the business within some period following such event or unless otherwise specified in the operating agreement. Such ***dissolution*** provisions frequently conflict with federal bankruptcy law principles. Significant disagreement exists among the courts as to whether these ***dissolution*** provisions should be upheld in the event of a bankruptcy filing, with some courts declaring that ***dissolution*** and forfeiture of management rights are invalid ipso facto provisions. A 2006 bankruptcy case found that the filing of bankruptcy by the sole member of an LLC dissolved the LLC by operation of law, but that the *Chapter 11 trustee* of the debtor "resuscitated" the LLC by filing an amendment to the LLC operating agreement appointing himself as the new manager pursuant to a provision of the Delaware LLC statute. The court found that this action was an effective means to restore the existence of the LLC. See *In re Modanlo, 412 B.R. 715 (Bankr. D. Md. 2006)*. For more information, see *LLCs and Bankruptcies*.

All LLCs continue to function after ***dissolution*** until they ***wind up*** all of their affairs. In most jurisdictions, the LLC must file a document, usually called the articles of ***dissolution*** (or certificate of ***dissolution***), with the Secretary of State. The requirements for the articles of ***dissolution*** vary from state to state but usually include:

- Name of the LLC
- Date of formation of the LLC
- Statement regarding the ***dissolution***
- Statement regarding the ***dissolution*** triggering event

A dissolving LLC should also withdraw from other states or jurisdictions where it registered to do business, generally by submitting the appropriate forms and fees to the state in the relevant jurisdiction. Counsel should consult the laws of all jurisdictions where the LLC has registered to do business. For state specific guidance on the articles of ***dissolution***, see *Limited Liability **Company** (Domestic) Official Forms State Law Survey*.

Dissolution of a Corporation

The corporation's articles of incorporation and state law generally govern the ***dissolution***. The ***dissolution*** of a corporation varies from state to state. Generally, if no shares have been issued, a corporation may be voluntarily dissolved by a majority of directors. This is accomplished by submitting a certificate, signed by a majority of the *incorporators* or *board of directors*, stating that no part of the capital has been paid and that the business has not begun.

If the corporation has issued stock, the directors must first recommend the ***dissolution*** to the shareholders, typically by resolution. The board next notifies each shareholder entitled to vote on ***dissolution***, and the shareholders entitled to vote must then approve the ***dissolution***. A shareholders meeting is then held to vote on the proposal; the vote required for approval is often two-thirds, depending on state law and the corporation's governing documents. In some states, unless otherwise specified in the articles of incorporation, a majority vote of shareholders entitled to vote is required for approval of ***dissolution***. State law may also allow shareholder approval through written consent.

Once ***dissolution*** is approved, one or more documents must be filed with the appropriate state authority, typically a division of the Secretary of State's office but sometimes also the state attorney general's office. In most jurisdictions, the corporation must file a document, usually called the articles of ***dissolution*** or certificate of ***dissolution*** with the Secretary of State. The requirements for the articles of ***dissolution*** vary from state to state but usually include:

- Name of the corporation
- Date of formation of the corporation
- Date and manner of authorization for ***dissolution***
- Statement regarding board or shareholder approval of the ***dissolution***
- Effective date of the ***dissolution***
- Signature(s) of the appropriate directors or officers of the corporation

Additional documents may be required, such as an article or certificate of termination, stating that the ***dissolution*** process is complete. The corporation may also have to submit evidence that it has paid all necessary taxes.

A dissolving corporation should also withdraw from other states or jurisdictions where it registered to do business, generally by submitting the appropriate forms and fees to the state in the relevant jurisdiction. Counsel should consult the laws of all jurisdictions where the corporation has registered to do business. For state specific guidance on the articles of ***dissolution***, see *Corporation (Domestic) Official Forms State Law Survey*.

The existence of the corporation continues only for activities necessary for ***winding up*** and liquidation. Such activities may include collecting assets; returning, transferring, or conveying assets held by the corporation on a conditional basis; distributing assets; and discharging debts and liabilities or arranging to do so.

Winding Up

After ***dissolution***, the business must commence the process of ***winding up*** its affairs which entails:

- Paying the debts, obligations, or other liabilities of the business
- Settling and closing the business's activities and operations
- Distributing the remaining assets of the business

To start ***winding up*** the business, the ***company*** will need to conduct an inventory of all of its assets (cash, real estate, accounts receivable, equipment, supplies, intellectual property, etc.). This information is needed for the ***company***'s final tax returns and also to properly liquidate such assets. The ***company*** should also determine all outstanding liabilities.

The business will need to cease operations and focus on winding down. The process of winding down the business includes, among other things, providing notices, liquidating assets, ceasing operations (including, ceasing services provided and the creation or purchase of new inventory), paying creditors, and making distributions to its ownership. These tasks are discussed below. Note that the sequence to perform certain tasks may differ from the order of the tasks described below. For instance, the ***company*** may hold a blow-out sale (discussed below) prior to providing notice that the business is closing its doors.

Notifications

The business will need to notify all interested parties of the ***dissolution***, including:

- **Employees.** For larger ***companies***, employee notifications may trigger additional legal requirements such as the notice required under the Worker Adjustment and Retraining Notification Act (WARN). If you provide a pension (or other retirement benefit) plan or a healthcare plan, notify employees of the last date such plan will be effective. Consult with plan administrators as to specifics on closing any benefit or healthcare plans. For more information, see *WARN Act and Liquidating Fiduciary Exception*.
- **Creditors.** Most states have their own requirements for creditor notifications. In some states, the requirements differ based on the type of entity. Notice to creditors should generally include (1) a description of the debt, (2) a statement of whether the debt is disputed, (3) the mailing address of the business, and (4) the deadline for the business to receive a claim for payment. Some states require the business entity to publish a written notice in a newspaper of general circulation. Creditors who fail to respond to the notice in accordance with state law may forfeit their claim. Check with your local jurisdiction for specific requirements. For form letters, see *Creditor Letter (No Proceeds Available)* and *Creditor Letter (Proceeds Available)*.
- **Debtors.** Parties who owe a debt to the business entity should be notified with a request for payment. The ***company*** should consider attempting to collect outstanding debts prior to sending the notice. Parties that owe the ***company*** money will have less incentive to pay once they learn that the existing commercial relationship is about to be terminated.
- **Suppliers.** Suppliers of inventory should be notified with a request to cancel any outstanding purchase orders.

- **Service providers.** Service providers should be provided with a notice of the final day for services (including instructions on how they can collect payment for their final bills). The ***company*** should check any long-term contracts to ensure that they provide sufficient notice to avoid early termination fees (if possible).
- **Insurance carriers.** Insurance carriers should be provided notice of cancellation. If a refund of an unused premium is due, the notice should include the address where the ***company*** can be reached after the business closes. Before cancelling the policy, counsel should determine whether the ***company***'s insurance policies cover past acts or need to be kept in place for a period of time after the closing in case the client is sued.
- **Customers.** Customers should be notified with a date for the final day of operations. While customer notification is not required by law, it is a good business practice to ensure good will is kept. The ***company*** should return customer deposits and advance payments for goods not delivered or services not yet rendered.

***Winding Up* Actions**

As part of the ***wind up***, the ***company*** will need to liquidate all of its inventory and assets to satisfy outstanding business debts and liabilities. Liquidation may involve a public or private sale. ***Companies*** may conduct a so-called blow-out sale where the ***company*** is not yet ready to tell customers, employees, and suppliers about the plan to close. The ***company*** may also conduct a subsequent going out of business (GOB) sale—after the initial blow-out sale and provide further discounts for the GOB sale. The ***company*** can also use a professional liquidator. Note that states and localities have general rules that govern all or certain types of sales, including GOB sales and bulk sales (the sale, transfer, or assignment of all or most of the assets of a business, which sale is not made in the ordinary course of business). For more information, see *Bulk Sales State Law Survey* and *Going Out of Business Sales in Bankruptcy*.

During the ***wind up***, the ***company*** should generally fulfill all outstanding obligations under its contracts until the termination or negotiate for early termination. If the contracts contain cancellation clauses, the ***company*** should exercise the right to cancel and pay any pertinent cancellation fees, where possible. If an agreement's cancellation fee is excessive or if the ***company*** is unable to pay, the ***company*** should contact the contract counterparty, explain the situation, and ask the counterparty to voluntarily agree to end the contract and waive the cancellation fee.

In addition to notifying the above-listed parties and taking the general actions described above, the ***company*** will need to take the following actions:

- **Cancel permits, licenses, and trade names.** Any permits, licenses, or trade names held with a governmental entity should be cancelled. A dormant permit or license could be used without permission and incur additional fees in the name of the dissolved business. Trade names may need to be formally abandoned through a state law process. Check your local jurisdiction.
- **Cancel credit and bank accounts.** The ***company*** should cancel all bank accounts and credit cards. The business should also cancel any lines of credit or other cancelable accounts to prevent the incurrence of additional debt.
- **Cancel subscriptions and memberships in trade associations.**
- **Pay employees.** The ***company*** should ensure that all employee obligations are paid when due. Note that management might be liable for unpaid employee obligations, such as salaries and benefits. State laws differ as to the scope of such liability and whether management can be held personally liable for them at all, so counsel should consult the relevant state law. Federal law will often impose certain liabilities on persons described as employers in the relevant federal statute, which in some cases will include responsible parties such as officers. See generally *Business Organizations with Tax Planning § 154.03[5][c]*.
- **Pay or settle debts.** Most states require the debts of a dissolved business to be paid in order of priority. A dissolving business generally must first use its assets to pay all known debts to creditors. In addition, it

must make reasonable provisions for any contingent obligations and obligations that have not yet matured as well as reasonable provisions for unknown liabilities that could arise in the next 10 years. Check with your local jurisdiction for specific requirements.

- **Prosecute actions and proceedings.** In some states, a dissolved business may still prosecute proceedings. See *Rose Goodyear Props., Ltd. Liab. Co. v. NBA Enters. Ltd. P'ship, 235 Ariz. 339 (Ct. App. 2014)* (LLC has the capacity to sue to collect assets); but see *Maple Court Seattle Condo. Ass'n v. Roosevelt, LLC, 139 Wash. App. 257 (2007)* (LLC lacked standing to bring third-party claims). Check your local jurisdiction. If permitted, prosecution may be required to collect outstanding payments from customers.
- **Defend actions and proceedings.** In some states, a dissolved business may still be sued. Failure to defend an action could subject the business to additional liabilities. States have widely different statutes pertaining to (1) the ability of a dissolved business to be sued and (2) the statute of limitations for bringing a claim against a dissolved business. Check with your local state law. Note that some courts hold that the Comprehensive Environmental Response, Compensation, and Liability Act of 1980 (CERCLA) preempts state ***dissolution*** laws such that a dissolved entity can be sued for environmental liability under CERCLA at any time after ***dissolution***. See *United States v. Sharon Steel Corp., 681 F. Supp. 1492 (D. Utah 1987)*; but see *Levin Metals Corp. v. Parr-Richmond Terminal Co., 817 F.2d 1448 (9th Cir. 1987)*. If the dissolving business has a potential for environmental liability, check your local case law.
- **File final tax returns.** File final tax returns and pay amounts due (described below).
- **Cancel federal EIN and close IRS business account.** To cancel the business EIN and close the IRS business account, send a letter to the IRS including:
    - Complete legal name of the business
    - The business EIN
    - The business address
    - Reason for closing the account
    - Copy of the notice assigning the EIN (if available)

Distributions

Once a dissolved business makes adequate provisions for its creditors, it may begin to distribute to its ownership for past due debts and pursuant to the operating agreement.

- **General partnership.** Upon satisfaction of all creditors' claims, the partnership must then settle the accounts of each partner. Partners receive credits for any money or property contributed to the partnership beyond what the partnership agreement required and for a proportionate share of any profits derived from liquidating partnership assets. Each partner's account is charged with any money owed to the partnership as well as a proportionate share of partnership liabilities incurred after that person became a partner. Upon completion of the accounting, each partner receives a distribution to the extent that credits exceed charges on the partner's account. If, however, charges exceed credits, the partner must contribute that amount to the partnership. If a partner fails to pay the amount owed, the other partners each assume an equal share of the shortfall. The non-paying partner is personally liable to each other partner for that amount.
- **Limited partnership and limited liability partnership.** The partnership must distribute any surplus to both general and limited partners in proportion to the share of profit distributions each is entitled to under the partnership agreement. If the partnership's assets are insufficient to pay its debts, the general partners must contribute to the shortfall in proportion to their share in distributions at the time the limited partnership incurred the debt. To whatever extent a general partner fails to satisfy this obligation, the remaining general partners must make up the difference. The non-paying general partner is personally liable to the other general partners. However, it is important to note that limited partners are not liable for any shortfall.
- **Limited liability *company*.** Once a limited liability ***company*** makes adequate provisions for its creditors, it must pay any past distributions owed to current or former members under the terms of its LLC agreement.

Then the LLC may distribute any remaining assets to its members, first returning each member's investment, then paying distributions in proportion to each member's share in profits under the LLC agreement. The LLC may not make such final distributions until it has adequately provided for all debts. Any member that accepts such a distribution knowing that the LLC did not adequately provide for its debts may be held personally liable for the amount of the distribution for a certain period of time (depending on state law).

- **Corporation.** After all the corporation's liabilities have been paid or properly provided for, the corporation may, if approved by the holders of a majority of its outstanding shares, sell some or all of its remaining assets for cash or securities or a combination of both. Any remaining assets are to be distributed, in cash, in kind, or by a combination thereof, to the shareholders according to their rights (primarily contained in the certificate of incorporation).

Tax Consequences

Depending on the location of the business and the type of entity, certain tax consequences arise from the ***dissolution*** of a business. Counsel should consult with tax counsel and the ***company***'s tax and/or accounting service providers with respect to the tax consequences of dissolving a business. For related information, see *Tax Traps in an Acquisition of a Financially Distressed Target*. Below is a general overview of the ***company***'s tax obligations.

State Taxes

The ***company*** must pay all sales taxes previously collected from customers and file all required final state sales tax forms. The ***company*** must also pay all final state payroll, disability, and unemployment taxes and file the final reports for such taxes.

Each state has different requirements and forms with regard to final state tax returns. For some states, there will be no state-level consequences resulting from the ***dissolution*** of the entity, while others may require the ***company*** to file a state tax return. As mentioned, depending on the entity's location and extent of business, a dissolving business may also file tax returns for gross receipts, employee income tax withholding, and other industry-specific taxes. Some states also require a tax clearance certificate (to certify the business has met its tax obligations as of a date certain). Check with your local taxing authority.

Municipal and other local tax collection authorities may also require notification from a dissolving ***company***. These vary depending on the locality. Counsel should consult the tax collection authority in any locality where the entity paid taxes to determine the requirements of each.

Federal Taxes

If the business has employees, the ***company*** must pay any final wages and make final federal payroll and unemployment tax deposits. In such cases, the ***company*** must file the necessary final quarterly (*Form 941*) or annual (*Form 944*) employer tax returns and a final employer unemployment tax return (*Form 940*). The ***company*** should also provide final *W-2* or *1099* statements to all employees or contract workers.

The ***company*** must usually file a final federal tax return with the IRS and indicate in the filing that the business is no longer operating.

Partnership (Both General and Limited)

Partnerships are generally not required to file federal income tax returns with the IRS other than an annual information return. However, partnerships typically must file final returns for other matters, including *Form 1065* for return of partnership income, employment taxes, and excise taxes. These returns must be filed by the normal deadline and the box must be checked indicating that the return is final. If the partnership sold or exchanged partnership property during the ***wind up*** process, a dissolving partnership must also file Forms *8594* and *4797*. If the partners received a share of the partnership assets following ***dissolution***, they must report those assets in their individual state and federal income tax returns. If a *Schedule K-1* is filed for a partner, the final return box should be checked there also. For this reason, partners should consider the personal tax consequences of dissolving a partnership before going forward.

Limited Liability ***Company***

The IRS does not recognize the LLC as a taxable entity. As a result, the IRS may classify an LLC as a corporation, partnership, or sole proprietorship, depending on the circumstances. Some LLCs may be pre-classified by law or regulation, while others may elect which type of entity they want to be taxed as. LLCs classified as partnerships must file an IRS *Form 1065* Return of Partnership Income with the IRS, while LLCs classified as corporations must file an IRS *Form 1120* or *1120S*. In addition to these forms, many LLCs must also file returns for excise and employment taxes.

In order to end its obligation to file tax returns and to avoid fees or penalties for failure to do so, an LLC must file a final return for the year in which it dissolves. This is done by filing the normal tax returns by the normal deadline, being sure to check the box designating it as a final return.

In addition to its final returns, a dissolving LLC classified as a corporation must file a *Form 966* with the IRS to report the ***dissolution*** of a corporation. For any type of LLC, IRS Forms *8594* and *4797* may also be necessary if the ***dissolution*** involves the sale or exchange of corporate assets.

Corporation

Dissolving corporations that do not properly ***wind up*** their tax affairs may continue to accrue taxes even after they stop receiving income. Corporations must file income tax, employment tax, and excise tax returns, among others. In order to end a corporation's tax obligations, it must file all final tax returns for the year in which it dissolves. Be sure to file all final returns by the normal filing deadline and mark all such returns final.

In addition to its final returns, a dissolving corporation must file several other documents with the IRS. The ***company*** must file (1) IRS *Form 966* to report the ***dissolution*** of the corporation, (2) IRS *Form 8594* to report the sale of business assets, and (3) IRS *Form 4797* to report the sale of business property (if the ***dissolution*** involved the sale or exchange of corporate assets).

Taxes in Foreign Jurisdictions

Dissolving businesses must also ***wind up*** their tax affairs in other states or jurisdictions where they pay taxes. This may require obtaining a tax clearance certificate from some states. A dissolving business should consult the laws of all jurisdictions in which it registered to do business.

Current as of: ***08/23/2023***

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