Because of the recent tax reform, I’ve had more than the usual number of questions about the taxation of goodwill. So, here’s a primer.

- As the seller, you have *self-created* goodwill when the total sales price of your business exceeds the fair market value of its assets, both tangible and intangible.
- You have *acquired* goodwill when you purchase the assets of another company for more than the value of its tangible and intangible assets.

Self-created goodwill is a capital asset because the law doesn’t specifically exclude it from being a capital asset. Thus, your sale of self-created goodwill is a capital gain.

Acquired goodwill is an amortizable Section 197 intangible. You recover its cost in equal monthly amounts over 15 years. When you sell the acquired goodwill, it’s a Section 1231 asset if you held it for more than one year, which means you qualify for the best of all tax worlds:

- If you have a net gain, it is a long-term capital gain.
- If you have a net loss, it is an ordinary loss.