

The Structured Installment Sale

Sell Your Business or Property for a **Guaranteed** Income

Selling a Business or Personal Property?

Many individuals selling a business, professional practice, or personal property would like to liquidate their investment without having to recognize the entire sales proceeds as taxable in the year of the sale. Instead, they would like to sell their appreciated asset in exchange for a stream of periodic payments.

By making the sale and having all or part of the proceeds payable over several years, an individual can receive a stream of predictable periodic payments. They may also be able to defer recognition of capital gains and other applicable taxes until future payments are received.

What is an Installment Sale?

For a sale to be considered an Installment Sale, it must be a sale of qualified property¹ with receipt of at least one payment after the tax year of the sale. Each installment received will consist of the following three components:

- Nontaxable recovery of the investment
- Taxable gain
- Interest

What are the Benefits of an Installment Sale?

Installment sales offer the following benefits:

- Defer recognition of capital gains tax²
- Guaranteed rate of return

However, there are risks associated with them as well. Some of these are:

- Risk of Buyer default
- Requires negotiation of terms (not flexible)

1. See IRC §453.

2. The seller is responsible for reporting any applicable installment sale income to the IRS and should consult with his or her own independent tax advisor for details.

How Can the Sale be Structured?

Assuming that the assets being sold qualify for reporting on the installment method, here's how the process would typically work:

- The buyer and seller enter into an installment sale agreement under which the buyer promises to make periodic payments for a stated number of years.
- The buyer assigns his or her periodic payment obligations to an assignment company in exchange for an amount of cash needed to fund those payments.
- The assignment company funds the payment obligation by purchasing United States Treasuries.
- Midwest Trust, as Trustee for the Assignment Company, begins making the payments to the seller as agreed to under the terms of the installment sale agreement and issues an agreement to satisfy the periodic payment obligations assumed by the Assignment Company.

If someone is thinking of selling a business or property and is interested in a high degree of security and flexibility as well as a guaranteed rate of return, a solution would be to consider a "Structured Installment Sale".

A **Structured Installment Sale** offers all of the benefits of an installment sale without the risk of buyer default or the need to agree on terms. The buyer and seller each determine their own cash flows. For example, the seller can receive monthly payments over a certain period of time while the buyer pays cash. All future payments are guaranteed and can be designed to meet the needs of the seller. The seller may be able to defer all recognition of income and taxes until such time that the future periodic payments begin. The buyer fully funds the transaction at the time of sale and receives ownership at closing; there is no ongoing relationship between buyer and seller. In addition, the seller realizes a guaranteed rate of return!

	Traditional Installment Sale	Structured Installment Sale
Avoids depending on Buyers solvency:	No	Yes
U.S. Treasury Securities used as investment:	No	Yes
Guaranteed rate of return:	No*	Yes
Up to 30 years of payments:	No*	Yes
Flexible payment schedule available:	No*	Yes

*Depends on solvency and financial circumstances of buyer.

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