

Structured Installment Sale

Metropolitan Tower Life Insurance Company

A Case Example:

In 2021, Marge sold an investment property that she had owned for the last 20 years. The sale price was \$1,500,000; the adjusted basis of the property was \$900,000, the property wasn't subject to a mortgage and the selling expenses associated with this transaction were \$50,000.

During the sale, Marge consulted with her legal and tax advisors who helped her determine that a Structured Installment Sale would be beneficial. This financial tool would provide periodic payments to help supplement her retirement and would also defer capital gain taxes on the property beyond the year of the sale. Per the Purchase and Sale agreement, the **\$1,500,000** purchase would be payable as follows: upfront cash of **\$500,000** in this year with the remaining **\$1,000,000** payable in 10 equal amounts beginning next year.

If Marge had received the proceeds in full at the time of the sale, she would have to pay just over **\$68,000** in federal capital gain taxes. A 3.8% net investment income tax (NIIT) would also apply to a portion of the gain resulting in an additional \$11,400 of taxes. Total federal taxes would be about \$79,400 (\$68,000 + \$11,400).

But, if she utilizes the Structured Installment Sale she will pay approximately **\$11,600 of federal capital gains taxes** in the year of the sale due to the 15% and 0% capital gains rates, and **\$0 each year** for the next 10 years due to the 0% capital gains rate.* Additionally, none of the proceeds would be subject to the 3.8% NIIT. This results in a tax savings of about \$67,800. Under the tax rules applicable to installment sales, a portion of each payment will comprise interest and thus, will be taxed as ordinary income.

Ultimately, by using a Structured Installment Sale, Marge's capital gains and NIIT tax bill will be reduced thus preserving more of the sales proceeds and she will have peace of mind of a guaranteed¹ income stream.



Original Investment in Installment Sale Annuity	\$1,000,000
Potential Total Guaranteed ¹ Payout after 10 years	\$1,078,025**

* The 15% and 0% capital gains tax rates assume Marge's annual taxable income in the year of the sale and during the 10 years thereafter doesn't exceed the applicable ceiling necessary to take advantage of these preferential rates.

** Rates are subject to change²

What are the advantages to the Structured Installment Sale?

- Deferral and potential reduction of federal taxes
- Conversion of asset into a guaranteed income stream, immune to market volatility and performance
- Payments guaranteed by a financially sound and trusted company¹

The Met Tower Life Advantage

The Structured Installment Sale is provided by Metropolitan Tower Life Insurance Company, (Met Tower Life), an insurance industry leader and a leader in the structured settlement market. Met Tower Life holds an A+ rating from A.M. Best, an Aa3 rating with Moody's, an AA- with Fitch and an AA- with Standard & Poor's. The promise of financial security is only as solid as the company making the guarantee. When you select our annuity, you are choosing a leader who will partner with you every step of the way and can provide you with a steady, dependable income stream — both now and in the future.

How was Marge's capital gain calculated?

The capital gain taxes were computed by first determining the amount of gross profit (none of which is subject to depreciation recapture rules): Selling price of \$1,500,000 less adjusted basis (including expenses of the sale) of \$950,000 equals a gross profit of \$550,000. The gross profit factor is 36.67% (\$550,000 gross profit divided by \$1,500,000 contract price).

In the year of the sale and using an installment sale, Marge received only the down payment of \$500,000. In applying the gross profit factor of 36.67%, Marge must report \$183,350 of capital gain income resulting in about \$27,502.50 of capital gains taxes (\$183,350 x 15%). For the ten years following the year of the sale, Marge receives \$100,000 per year. In applying the gross profit factor of 36.68%, Marge must report \$36,670 of capital gain income resulting in about \$0 of capital gain taxes annually during this period (\$36,670 x 0%).

Tax computations assume: Marge's filing status is married filing joint; the applicable standard deduction is \$25,100; Marge has no other taxable income; 2021 federal capital gains rates apply for the duration of the installment sale. State taxes may apply and are not reflected in the computations.

This example is hypothetical in nature and actual results will vary. For further information about the federal tax treatment of installment sales, see IRS publication 537 at www.irs.gov.

1. All guarantees are subject to the financial strength and claims-paying ability of Metropolitan Tower Life Insurance Company.
2. This chart shows an example of how a Metropolitan Tower Life Insurance Company Structured Installment Sale could perform. Returns shown are hypothetical and are not intended to represent returns on any Met Tower Life product. Based on rates in effect January, 2022. All rates are subject to change.