

# STRUCTURED INSTALLMENT SALE

## KEY ADVANTAGES

- ✓ 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 company<sup>1</sup>

## 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 the peace of mind of a guaranteed<sup>1</sup> income stream.



Original Investment in Installment Sale Annuity	\$1,000,000
Potential Total Guaranteed <sup>1</sup> 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 the 10 years thereafter doesn't exceed the applicable ceiling necessary to take advantage of these preferred rates.*

*\*\*Rates are subject to change.<sup>2</sup>*



To us, it's personal.<sup>SM</sup>

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## 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](http://www.irs.gov).*

<sup>1</sup> All guarantees are subject to the financial strength and claims-paying ability of the life insurance company.

<sup>2</sup> This chart shows an example of how a life insurance company Structured Installment Sale could perform. Returns shown are hypothetical and are not intended to represent returns on any product. Based on rates in effect January, 2022. All rates are subject to change.

<sup>3</sup> Real or personal property sold by the dealer or a person who regularly sells property on the installment plan and property included in inventory do not qualify for the installment sale rules. Marketable securities are not eligible for installment sale treatment. Other restrictions apply. Please consult your tax advisor before entering in to an installment sale agreement.

<sup>4</sup> Neither Kelly Ramsdale & Associates, Inc. nor its affiliates offer tax or legal advice. Any discussion of taxes in this material is intended to be general in nature and based on our understanding of the tax laws as they currently apply. Tax laws are subject to change and to different interpretation. You should consult your own tax advisor to determine how the tax law applies to your situation.



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