

Installment Sale for Business Succession

CONCEPT APPLIED:

An installment sale lets a business owner sell a business interest without expensive financing to a friendly buyer (usually a family member) while deferring taxes on the overall sale. Life insurance can protect against the buyer's premature death.

HOW IT WORKS:

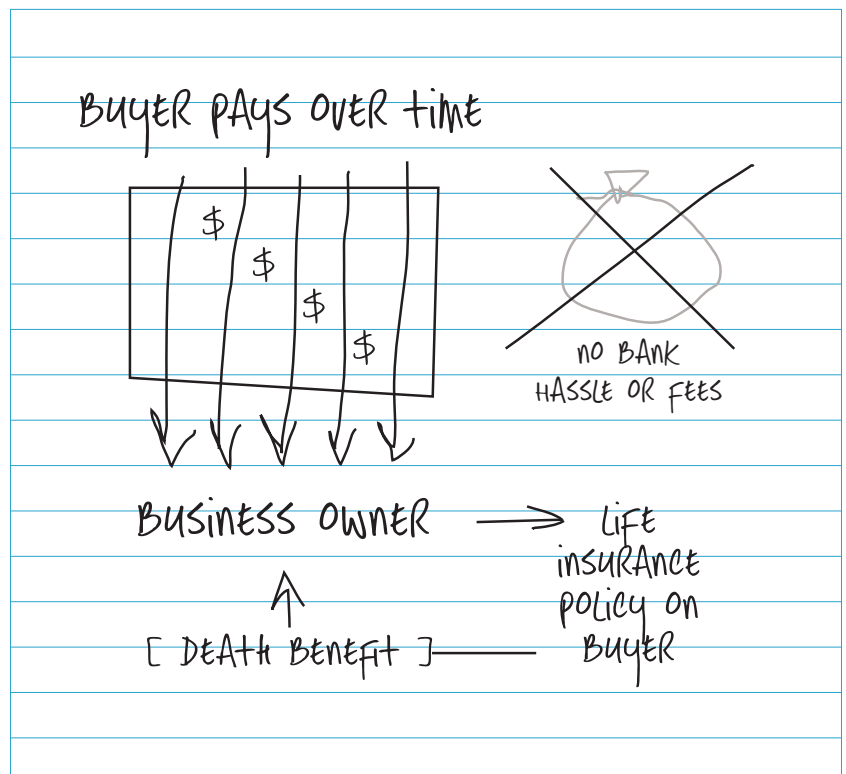
The buyer and seller negotiate the terms of the sale, including the length of time payments will be made, the frequency of payments, and the yearly interest rate. The IRS requires use of the applicable federal rate (AFR) as a minimum interest rate. Interest paid is deductible to the buyer and is taxed as ordinary income to the seller.

WHY IS IT USEFUL?

When an older family member uses an installment sale to pass on the family business, the sale amount is used to value the business interest for estate tax purposes. Additional appreciation is passed on to the next generation.

50 WORDS OR LESS

With an installment sale, the owner agrees to accept a series of payments over time. This is an important financing tool for buyers without enough cash to finance an outright purchase. Instead of paying tax on one large purchase price, the seller only pays taxes on smaller annual installment payments.



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