

INSTALLMENT PLAN STRATEGY

Do you own real estate that will produce a big capital gain when you sell it? Fortunately, you may be able to realize significant tax benefits by negotiating an installment sale of the property.

It is always best and advised that you consult with your tax advisor to set up your installment sale. If you qualify for an installment sale, there are three (3) main benefits:

Installment Sale Benefits

Although you will still owe tax by selling real estate under the installment sale method, you are in line for three key tax breaks.

1. Capital gain tax rates. With an installment sale of real estate, any gain is treated as favorably taxed long-term gain if you have owned the property for longer than one year. Currently, [the federal income tax rate for long-term capital gains](#) is 15% for most individuals. The maximum 20% rate on long-term gains applies to high-income individuals. In contrast, the top tax rate on ordinary income is 37%. Note that the maximum federal rate on real estate gains attributable to depreciation is 25% instead of the standard 20% maximum rate.

2. Tax deferral. Instead of paying tax on the entire gain in the year of the sale, only a portion of your gain is subject to tax. The remainder is taxed in the years in which payments are actually received. How do you figure it out? The taxable portion of each payment is based on the “gross profit ratio” determined by dividing the gross profit from the real estate sale by the net sale price.

3. Potentially lower tax bill. Since the taxable gain from selling real estate on an installment basis is spread out over several years, you may benefit from tax rate differentials in those years.

Thank you, Winnie Yang.
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