Installment Sales Offer Both Tax Pluses and Tax Minuses

Whether you're selling your business or acquiring another company, the tax consequences can have a major impact on the transaction's success or failure.

Consider installment sales, for example. The sale of a business might be structured as an installment sale if the buyer lacks sufficient cash or pays a contingent amount based on the business's performance. And it sometimes — but not always — can offer the seller tax advantages.

Pluses

An installment sale may make sense if the seller wishes to spread the gain over a number of years. This could be especially beneficial if it would allow the seller to stay under the thresholds for triggering the 3.8% net investment income tax (NIIT) or the 20% long-term capital gains rate.

For 2016, taxpayers with modified adjusted gross income (MAGI) over $200,000 per year ($250,000 for married filing jointly and $125,000 for married filing separately) will owe NIIT on some or all of their investment income. And the 20% long-term capital gains rate kicks in when 2016 taxable income exceeds $415,050 for singles, $441,000 for heads of households and $466,950 for joint filers (half that for separate filers).

Minuses

But an installment sale can backfire on the seller. For example:

- Depreciation recapture must be reported as gain in the year of sale, no matter how much cash the seller receives.
- If tax rates increase, the overall tax could wind up being more.

Please contact Ceschini, CPAs at (631) 474-9400 for more information about this topic and other tax and business developments – such as new IRS regulations and court decisions.