Lump sum model

How it works

The buyer makes a lump sum payment to the seller. Then the seller transfers the business interest to the buyer. The buyer may finance part of the purchase price through a third-party lender. Life insurance is often purchased to insure the buyer to protect the parties in the event of an untimely death.

	Installment note			Cost to buyer		Net to seller			
Year (A)	Beginning-of-year note value (B)	Interest & principal payment (C)	End-of-year note value (D)	Pre-tax annual cost (E)	After-tax annual cost (F)	Annual proceeds (G)	Personal income taxes (H)	Capital gains taxes (I)	Net proceeds to seller (J)
0	0	0	0	1,000,000	1,333,333	1,000,000	0	180,000	820,000
1	0	0	0	0	0				
2	0	0	0	0	0				
3	0	0	0	0	0				
4	0	0	0	0	0				
5	0	0	0	0	0				
6	0	0	0	0	0				
7	0	0	0	0	0				
8	0	0	0	0	0				
9	0	0	0	0	0				
10	0	0	0	0	0				

Assumptions

Business value	$1,000,000	Seller's income tax rate	35%
Ownership interest to be sold	100%	Seller's capital gains rate	20%
Value of ownership interest	$1,000,000	Seller's basis	$100,000
Less minority discounts	0%	Buyer's income tax rate	25%
Sales price	$1,000,000	Note term (years)	10
Down payment	$1,000,000	Note interest rate	5%
Note value	$0		

Column explanations

A) Time period is annual.
B) Beginning of year third-party note value (amount still owed to third-party)
C) Annual interest and principal payment
D) End of year note value (after payment of interest and principal)
E) In year 0 equals the down payment; in years 1+, equals the interest & principal payment (column C)
F) Pre-tax annual cost (column E) divided by (1 - buyer's income tax rate)
G) In year 0 equals the down payment; in years 1+, equals the interest & principal payment (column C)
H) Annual interest multipled by seller's income tax rate
I) Annual amount of principal that is subject to capital gain multiplied by seller's capital gains rate
J) Equals annual proceeds (column G) - personal income taxes (column H) - capital gains taxes (column I)

Illustrated values aren't guaranteed and are based on assumptions that are subject to change at any time.
Returns are hypothetical. Actual results may be more or less favorable.
You should contact your attorney, accountant or tax advisor for the specific implications of this transaction.