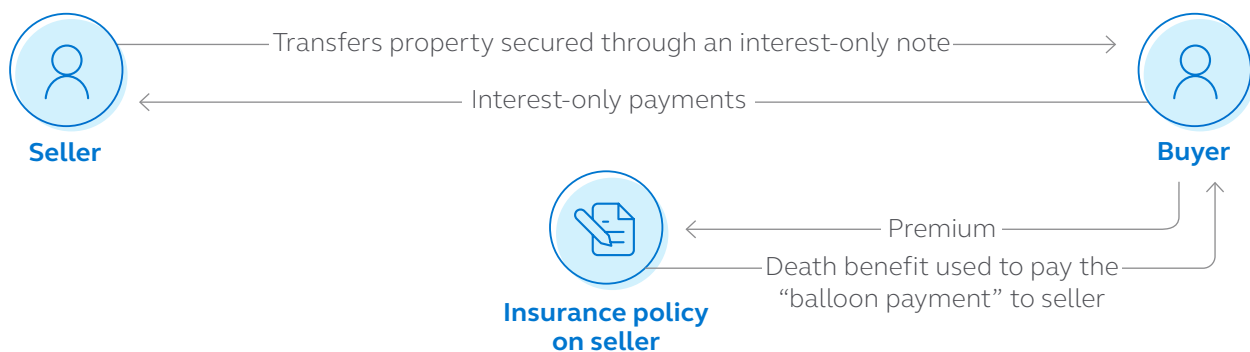


Prepare today for the unknown future of your business.

Do you have a strategy in place to transfer your business to the right people, at the right time, for the right amount of money? An interest-only sale is similar to a traditional installment sale. However, interest-only payments are made for a period of time with an ending “balloon payment” of principal.

Here’s how it works.

The seller transfers property to the buyer secured through an interest-only note. The buyer makes a down payment, then using an interest-only note, pays the seller interest for a specified period of time, at the applicable federal rate (AFR) in effect when the note is created. At the end of the period, the buyer makes a balloon payment to the seller. The buyer and seller may agree to extend the interest-only payment period, but would have to update the interest rate to the current AFR when the agreement is changed. Life insurance is often purchased to insure both the buyer and seller to protect the sale in the event of an untimely death.



What you need to know

There are advantages to this sort of an agreement, just as there are some other things to consider..

Estate impact. The balloon payment amount is included in the seller's estate, but business interest and appreciation are immediately outside of the seller's estate.

Flexible payment structure. Payments can be tailored to meet both the seller's and the business's financial needs.

Interest rates. Depending on the interest rate environment, interest-only payments can make financing more economical when rates are low, or offer planning flexibility when rates are high.

Possible tax implications. The seller could face gift-tax consequences if business interest and other available assets aren't at least enough to cover the interest-only note and balloon payment.

Payment requirements. A down payment of at least 10% is typically required and the balloon payment must be made even if the seller dies

Life insurance may be needed. The buyer purchases a life insurance policy on the seller. If the seller dies before the balloon payment is made, the life insurance proceeds are used to pay it.



[Learn more](#)

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