

# Installment sale model

## How it works

The buyer makes a down payment, then using an installment note, the buyer pays the remaining amount based on a predetermined payment schedule of principal and interest. Life insurance is often purchased to insure both the buyer and seller, protecting the sale in the event of an untimely death.

Year (A)	Installment note			Cost to buyer		Net to seller			
	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	250,000	333,333	250,000	0	45,000	205,000
1	750,000	97,128	690,372	97,128	129,505	97,128	13,125	10,733	73,270
2	690,372	97,128	627,762	97,128	129,505	97,128	12,082	11,270	73,777
3	627,762	97,128	562,021	97,128	129,505	97,128	10,986	11,833	74,309
4	562,021	97,128	492,994	97,128	129,505	97,128	9,835	12,425	74,868
5	492,994	97,128	420,515	97,128	129,505	97,128	8,627	13,046	75,455
6	420,515	97,128	344,413	97,128	129,505	97,128	7,359	13,698	76,071
7	344,413	97,128	264,505	97,128	129,505	97,128	6,027	14,383	76,718
8	264,505	97,128	180,602	97,128	129,505	97,128	4,629	15,103	77,397
9	180,602	97,128	92,503	97,128	129,505	97,128	3,161	15,858	78,110
10	92,503	97,128	0	97,128	129,505	97,128	1,619	16,651	78,859

## 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	\$250,000	Note interest rate	5.00%
Note value	\$750,000		

## Column explanations

- A) Time period is annual.
- B) Beginning of year note value (amount still owed to seller)
- 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 multiplied 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.

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