



Strategy in Action: The Structured Installment Sale

Small Business

Selling a small business is a great opportunity to profit from the hard work you put into your company. However, a sale can have tax implications as well. If you receive the sale proceeds in one lump sum, you might face not only significant capital gains taxes but also significant net investment income taxes and state income taxes, which are due in the year of the sale.

To help defer all or a portion of your capital gains, you have the option to turn the proceeds of your small business sale into a protected stream of income. This means you will only have to pay taxes on the income in the year it is received, which may decrease the total taxes on the sale. You can keep more of your money and shield those funds from market volatility. This solution is called a Structured Installment Sale.

A Case Example



John is a 55-year-old dentist and business owner in California who, for many years owned a major dental practice. As he considers his retirement plan, he decides to sell his practice to fund the next phase in his life. The dental practice is in good shape but needs a refreshed marketing strategy and capital improvements to bring the next generation of customers. Selling the dental practice now will help John avoid an outlay of capital and help reduce his responsibilities in retirement.

After putting his practice on the market, he accepts an offer of \$2,500,000. The dental practice's adjusted basis is \$1,000,000 and the selling expenses associated with the transaction are \$50,000 resulting in a gain of \$1,450,000. The dental practice's property is not subject to a mortgage.

Comparing options: Structured Installment Sale vs. Lump Sum

	Lump Sum	SIS
Capital Gains Taxes	\$248,850	\$133,000
Net Investment Income Taxes	\$45,600	\$0
State Income Taxes	\$148,000	\$119,700
Total	\$442,450	\$252,700

By utilizing a Structured Installment Sale rather than receiving one lump sum, John was able to save over \$189,750 on capital gains, net investment income tax and state income taxes.

To learn more about how a Structured Installment Sale works and how your business clients can take advantage of tax rules applicable to an installment sale, please [Book a Discovery Call](#) with one of our financial professionals.