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Installment Sales

For use in preparing

2008 Returns

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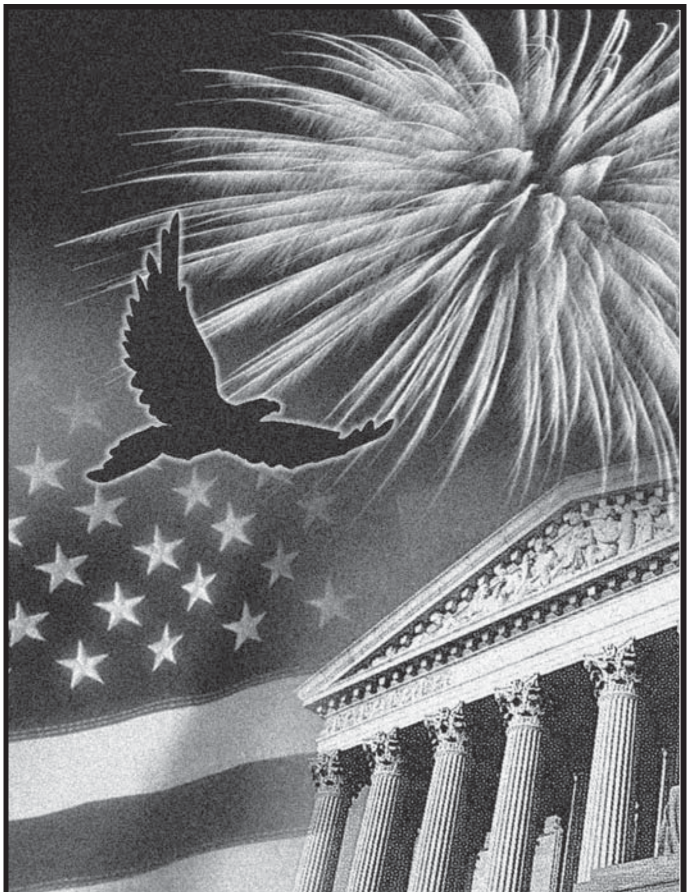

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Introduction

Note. Section references within this publication are to the Internal Revenue Code and regulation references are to the Income Tax Regulations under the Code.

An installment sale is a sale of property where you receive at least one payment after the tax year of the sale. If you realize a gain on an installment sale, you may be able to report part of your gain when you receive each payment. This method of reporting gain is called the installment method. You cannot use the installment method to report a loss. You can choose to report all of your gain in the year of sale.

This publication discusses the general rules that apply to using the installment method. It also discusses more complex rules that apply only when certain conditions exist or certain types of property are sold. There are two examples of reporting installment sale income on Form 6252 near the end of the publication.

If you sell your home or other nonbusiness property under an installment plan, you may need to read only the *General Rules.* If you sell business or rental property or have a like-kind exchange or other complex situation, also see the appropriate discussion under *Other Rules,* later.

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Useful Items

You may want to see:

Publication

- ❏ **523** Selling Your Home
- ❏ **538** Accounting Periods and Methods
- ❏ **541** Partnerships
- ❏ **544** Sales and Other Dispositions of Assets
- ❏ **550** Investment Income and Expenses
- ❏ **551** Basis of Assets
- ❏ **925** Passive Activity and At-Risk Rules

Form (and Instructions)

- ❏ **4797** Sales of Business Property
- ❏ **6252** Installment Sale Income

See *How To Get Tax Help* near the end of this publication for information about getting publications and forms.

What Is an Installment Sale?

An installment sale is a sale of property where you receive at least one payment after the tax year of the sale.

Sale of inventory. The regular sale of inventory is not an installment sale even if you receive a payment after the year of sale. See *Sale of a Business* under *Other Rules,* later.

Dealer sales. Sales of personal property by a person who regularly sells or otherwise disposes of the same type of personal property on the installment plan are not installment sales. This rule also applies to real property held for sale to customers in the ordinary course of a trade or business. However, the rule does not apply to an installment sale of property used or produced in farming.

Special rule. Dealers of time-shares and residential lots can treat certain sales as installment sales and report them under the installment method if they elect to pay a special interest charge. For more information, see section 453(l) of the Internal Revenue Code.

Stock or securities. You cannot use the installment method to report gain from the sale of stock or securities traded on an established securities market. You must report the entire gain on the sale in the year in which the trade date falls.

Installment obligation. The buyer's obligation to make future payments to you can be in the form of a deed of trust, note, land contract, mortgage, or other evidence of the buyer's debt to you.

Worksheet A. **Figuring Adjusted Basis and Gross Profit Percentage** *Keep for Your Records*

1.	Enter the selling price for the property		______
2.	Enter your adjusted basis for the property	______	
3.	Enter your selling expenses	______	
4.	Enter any depreciation recapture	______	
5.	Add lines 2, 3, and 4. This is your **adjusted basis for installment sale purposes**		______
6.	Subtract line 5 from line 1. If zero or less, enter -0-. This is your **gross profit** . . . . If the amount entered on line 6 is zero, **Stop** here. You cannot use the installment method.		______
7.	Enter the contract price for the property		______
8.	Divide line 6 by line 7. This is your **gross profit percentage**		______

General Rules

If a sale qualifies as an installment sale, the gain must be reported under the installment method unless you elect out of using the installment method.

See *Electing Out of the Installment Method* under *Other Rules,* later, for information on recognizing the entire gain in the year of sale.

Sale at a loss. If your sale results in a loss, you cannot use the installment method. If the loss is on an installment sale of business or investment property, you can deduct it only in the tax year of sale.

Unstated interest. If your sale calls for payments in a later year and the sales contract provides for little or no interest, you may have to figure unstated interest, even if you have a loss. See *Unstated Interest and Original Issue Discount (OID),* under *Other Rules,* later.

Figuring Installment Sale Income

You can use the following discussions or Form 6252 to help you determine gross profit, contract price, gross profit percentage, and installment sale income.

Each payment on an installment sale usually consists of the following three parts.

- Interest income.
- Return of your adjusted basis in the property.
- Gain on the sale.

In each year you receive a payment, you must include in income both the interest part and the part that is your gain on the sale. You do not include in income the part that is the return of your basis in the property. Basis is the amount of your investment in the property for installment sale purposes.

Interest Income

You must report interest as ordinary income. Interest is generally not included in a down payment. However, you may have to treat part of each later payment as interest, even if it is not called interest in your agreement with the buyer. Interest provided in the agreement is called stated interest. If the agreement does not provide for enough stated interest, there may be unstated interest or original issue discount. See *Unstated Interest and Original Issue Discount (OID)*, under *Other Rules,* later.

Adjusted Basis and Installment Sale Income (Gain on Sale)

After you have determined how much of each payment to treat as interest, you treat the rest of each payment as if it were made up of two parts.

- A tax-free return of your adjusted basis in the property, and
- Your gain (referred to as installment sale income on Form 6252).

Figuring adjusted basis for installment sale purposes. You can use Worksheet A to figure your adjusted basis in the property for installment sale purposes. When you have completed the worksheet, you will also have determined the gross profit percentage necessary to figure your installment sale income (gain) for this year.

Selling price. The selling price is the total cost of the property to the buyer. It includes:

- Any money you are to receive,
- The fair market value (FMV) of any property you are to receive (FMV is discussed at *Property Used As a Payment* under *Other Rules*, later),
- Any existing mortgage or other debt the buyer pays, assumes, or takes (a note, mortgage, or any other liability, such as a lien, accrued interest, or taxes you owe on the property), and
- Any of your selling expenses the buyer pays.

Do not include stated interest, unstated interest, any amount recomputed or recharacterized as interest, or original issue discount.

Adjusted basis for installment sale purposes. Your adjusted basis is the total of the following three items.

- Adjusted basis.
- Selling expenses.
- Depreciation recapture.

Adjusted basis. Basis is the amount of your investment in the property for installment sale purposes. The way you figure basis depends on how you acquire the property. The basis of property you buy is generally its cost. The basis of property you inherit, receive as a gift, build yourself, or receive in a tax-free exchange is figured differently.

While you own property, various events may change your original basis. Some events, such as adding rooms or making permanent improvements, increase basis. Others, such as deductible casualty losses or depreciation previously allowed or allowable, decrease basis. The result is adjusted basis.

For more information on how to figure basis and adjusted basis, see Publication 551.

Selling expenses. Selling expenses are any expenses that relate to the sale of the property. They include commissions, attorney fees, and any other expenses paid on the sale. Selling expenses are added to the basis of the sold property.

Depreciation recapture. If the property you sold was depreciable property, you may need to recapture part of the gain on the sale as ordinary income. See *Depreciation Recapture Income,* under *Other Rules,* later.

Gross profit. Gross profit is the total gain you report on the installment method.

To figure your gross profit, subtract your adjusted basis for installment sale purposes from the selling price. If the property you sold was your home, subtract from the gross profit any gain you can exclude. See *Sale of Your Home,* later, under *Reporting Installment Sale Income.*

Contract price. Contract price equals:

1. The selling price, minus
2. The mortgages, debts, and other liabilities assumed or taken by the buyer, plus
3. The amount by which the mortgages, debts, and other liabilities assumed or taken by the buyer exceed your adjusted basis for installment sale purposes.

Gross profit percentage. A certain percentage of each payment (after subtracting interest) is reported as installment sale income. This percentage is called the gross profit percentage and is figured by dividing your gross profit from the sale by the contract price.

The gross profit percentage generally remains the same for each payment you receive. However, see the *Example* under *Selling Price Reduced,* later, for a situation where the gross profit percentage changes.

Amount to report as installment sale income. Multiply the payments you receive each year (less interest) by the gross profit percentage. The result is your installment sale income for the tax year. In certain circumstances, you may be treated as having received a payment, even though you received nothing directly. A receipt of property or the assumption of a mortgage on the property sold may be treated as a payment. For a detailed discussion, see *Payments Received or Considered Received,* under *Other Rules,* later.

Example. You sell property at a contract price of $6,000 and your gross profit is $1,500. Your gross profit percentage is 25% ($1,500 ÷ $6,000). After subtracting interest, you report 25% of each payment, including the down payment, as installment sale income from the sale for the tax year you receive the payment. The remainder (balance) of each payment is the tax-free return of your adjusted basis.

Selling Price Reduced

If the selling price is reduced at a later date, the gross profit on the sale also will change. You then must refigure the gross profit percentage for the remaining payments. Refigure your gross profit using Worksheet B, *New Gross Profit Percentage — Selling Price Reduced*. You will spread any remaining gain over future installments.

Example. In 2006, you sold land with a basis of $40,000 for $100,000. Your gross profit was $60,000. You received a $20,000 down payment and the buyer's note for $80,000. The note provides for four annual payments of $20,000 each, plus 8% interest, beginning in 2007. Your gross profit percentage is 60%. You reported a gain of $12,000 on each payment received in 2006 and 2007.

In 2008, you and the buyer agreed to reduce the purchase price to $85,000 and payments during 2008, 2009, and 2010 are reduced to $15,000 for each year.

The new gross profit percentage, 46.67%, is figured in Worksheet B.

You will report a gain of $7,000 (46.67% of $15,000) on each of the $15,000 installments due in 2008, 2009, and 2010.

Example —
Worksheet B. **New Gross Profit Percentage — Selling Price Reduced**

1.	Enter the reduced selling price for the property		85,000
2.	Enter your adjusted basis for the property	40,000	
3.	Enter your selling expenses	-0-	
4.	Enter any depreciation recapture	-0-	
5.	Add lines 2, 3, and 4.		40,000
6.	Subtract line 5 from line 1. This is your **adjusted gross profit**		45,000
7.	Enter any installment sale income reported in prior year(s)		24,000
8.	Subtract line 7 from line 6		21,000
9.	Future installments		45,000
10.	Divide line 8 by line 9. This is your **new gross profit percentage***.		46.67%

Worksheet B. **New Gross Profit Percentage — Selling Price Reduced** *Keep for Your Records*

1.	Enter the reduced selling price for the property		
2.	Enter your adjusted basis for the property		
3.	Enter your selling expenses		
4.	Enter any depreciation recapture		
5.	Add lines 2, 3, and 4.		
6.	Subtract line 5 from line 1. This is your **adjusted gross profit**		
7.	Enter any installment sale income reported in prior year(s)		
8.	Subtract line 7 from line 6		
9.	Future installments		
10.	Divide line 8 by line 9. This is your **new gross profit percentage***.		

* Apply this percentage to all future payments to determine how much of each of those payments is installment sale income.

* Apply this percentage to all future payments to determine how much of each of those payments is installment sale income.

Reporting Installment Sale Income

Generally, you will use Form 6252 to report installment sale income from casual sales of real or personal property during the tax year. You also will have to report the installment sale income on Schedule D (Form 1040) or Form 4797, or both. See *Schedule D (Form 1040)* and *Form 4797,* later. If the property was your main home, you may be able to exclude part or all of the gain. See *Sale of Your Home,* later.

Form 6252

Use Form 6252 to report an installment sale in the year it takes place and to report payments received, or considered received because of related party resales, in later years. Attach it to your tax return for each year.

Form 6252 will help you determine the gross profit, contract price, gross profit percentage, and installment sale income.

Which parts to complete. Which part to complete depends on whether you are filing the form for the year of sale or a later year.

Year of sale. Complete lines 1 through 4, Part I, and Part II. If you sold property to a related party during the year, complete Part III.

Later years. Complete lines 1 through 4 and Part II for any year in which you receive a payment from an installment sale.

If you sold a marketable security to a related party after May 14, 1980, and before January 1, 1987, complete Form 6252 for each year of the installment agreement, even if you did not receive a payment. (After December 31, 1986, the installment method is not available for the sale of marketable securities.) Complete lines 1 through 4. Complete Part II for any year in which you receive a payment from the sale. Complete Part III unless you received the final payment during the tax year.

If you sold property other than a marketable security to a related party after May 14, 1980, complete Form 6252 for the year of sale and for 2 years after the year of sale, even if you did not receive a payment. Complete lines 1 through 4. Complete Part II for any year during this 2-year period in which you receive a payment from the sale. Complete Part III for the 2 years after the year of sale unless you received the final payment during the tax year.

Schedule D (Form 1040)

Enter the gain figured on Form 6252 (line 26) for personal-use property (capital assets) on Schedule D (Form 1040), Capital Gains and Losses, as a short-term gain (line 4) or long-term gain (line 11). If your gain from the installment sale qualifies for long-term capital gain treatment in the year of sale, it will continue to qualify in later tax years. Your gain is long-term if you owned the property for more than 1 year when you sold it.

Form 4797

An installment sale of property used in your business or that earns rent or royalty income may result in a capital gain, an ordinary gain, or both. All or part of any gain from the disposition of the property may be ordinary gain from depreciation recapture. For trade or business property held for more than 1 year, enter the amount from line 26 of Form 6252 on Form 4797, line 4. If the property was held 1 year or less or you have an ordinary gain from the sale of a noncapital asset (even if the holding period is more than 1 year), enter this amount on Form 4797, line 10, and write "From Form 6252."

Sale of Your Home

If you sell your home, you may be able to exclude all or part of the gain on the sale. See Publication 523, for information about excluding the gain. If the sale is an installment sale, any gain you exclude is not included in gross profit when figuring your gross profit percentage.

Seller-financed mortgage. If you finance the sale of your home to an individual, both you and the buyer may have to follow special reporting procedures.

When you report interest income received from a buyer who uses the property as a personal residence, write the buyer's name, address, and social security number (SSN) on line 1 of Schedule B (Form 1040) or Schedule 1 (Form 1040A).

When deducting the mortgage interest, the buyer must write your name, address, and SSN on line 11 of Schedule A (Form 1040).

If either person fails to include the other person's SSN, a $50 penalty will be assessed.

Other Rules

The rules discussed in this part of the publication apply only in certain circumstances or to certain types of property. The following topics are discussed.

- Electing out of the installment method.
- Payments received or considered received.
- Escrow account.
- Depreciation recapture income.
- Sale to a related person.
- Like-kind exchange.
- Contingent payment sale.
- Single sale of several assets.
- Sale of a business.
- Unstated interest and original issue discount.
- Disposition of an installment obligation.
- Repossession.
- Interest on deferred tax.

Electing Out of the Installment Method

If you elect not to use the installment method, you generally report the entire gain in the year of sale, even though you do not receive all the sale proceeds in that year.

To figure the amount of gain to report, use the fair market value (FMV) of the buyer's installment obligation that represents the buyer's debt to you. Notes, mortgages, and land contracts are examples of obligations that are included at FMV.

You must figure the FMV of the buyer's installment obligation, whether or not you would actually be able to sell it. If you use the cash method of accounting, the FMV of the obligation will never be considered to be less than the FMV of the property sold (minus any other consideration received).

Example. You sold a parcel of land for $50,000. You received a $10,000 down payment and will receive the balance over the next 10 years at $4,000 a year, plus 8% interest. The buyer gave you a note for $40,000. The note had an FMV of $40,000. You paid a commission of 6%, or $3,000, to a broker for negotiating the sale. The land cost $25,000 and you owned it for more than one year. You decide to elect out of the installment method and report the entire gain in the year of sale.

Gain realized:		
Selling price		$50,000
Minus: Property's adj. basis	$25,000	
Commission	3,000	28,000
Gain realized		**$22,000**
Gain recognized in year of sale:		
Cash		$10,000
Market value of note		40,000
Total realized in year of sale		$50,000
Minus: Property's adj. basis	$25,000	
Commission	3,000	28,000
Gain recognized		**$22,000**

The recognized gain of $22,000 is long-term capital gain. You include the entire gain in income in the year of sale, so you do not include in income any principal payments you receive in later tax years. The interest on the note is ordinary income and is reported as interest income each year.

How to elect out. To make this election, do not report your sale on Form 6252. Instead, report it on Schedule D (Form 1040), Form 4797, or both.

When to elect out. Make this election by the due date, including extensions, for filing your tax return for the year the sale takes place.

Automatic six-month extension. If you timely file your tax return without making the election, you still can make the election by filing an amended return within 6 months of the due date of your return (excluding extensions). Write "Filed pursuant to section 301.9100-2" at the top of the amended return and file it where the original return was filed.

Revoking the election. Once made, the election can be revoked only with IRS approval. A revocation is retroactive. You will not be allowed to revoke the election if either of the following applies.

- One of the purposes is to avoid federal income tax.
- The tax year in which any payment was received has closed.

Payments Received or Considered Received

You must figure your gain each year on the payments you receive, or are treated as receiving, from an installment sale.

In certain situations, you are considered to have received a payment, even though the buyer does not pay you directly. These situations occur when the buyer assumes or pays any of your debts, such as a loan, or pays any of your expenses, such as a sales commission. However, as discussed later, the buyer's assumption of your debt is treated as a recovery of your basis rather than as a payment in many cases.

Buyer Pays Seller's Expenses

If the buyer pays any of your expenses related to the sale of your property, it is considered a payment to you in the year of sale. Include these expenses in the selling and contract prices when figuring the gross profit percentage.

Buyer Assumes Mortgage

If the buyer assumes or pays off your mortgage, or otherwise takes the property subject to the mortgage, the following rules apply.

Mortgage less than basis. If the buyer assumes a mortgage that is not more than your installment sale basis in the property, it is not considered a payment to you. It is considered a recovery of your basis. The contract price is the selling price minus the mortgage.

Example. You sell property with an adjusted basis of $19,000. You have selling expenses of $1,000. The buyer assumes your existing mortgage of $15,000 and agrees to pay you $10,000 (a cash down payment of $2,000 and $2,000 (plus 12% interest) in each of the next 4 years).

The selling price is $25,000 ($15,000 + $10,000). Your gross profit is $5,000 ($25,000 − $20,000 installment sale basis). The contract price is $10,000 ($25,000 − $15,000 mortgage). Your gross profit percentage is 50% ($5,000 ÷ $10,000). You report half of each $2,000 payment received as gain from the sale. You also report all interest you receive as ordinary income.

Mortgage more than basis. If the buyer assumes a mortgage that is more than your installment sale basis in the property, you recover your entire basis. The part of the mortgage greater than your basis is treated as a payment received in the year of sale.

To figure the contract price, subtract the mortgage from the selling price. This is the total amount you will receive directly from the buyer. Add to this amount the payment you are considered to have received (the difference between the mortgage and your installment sale basis). The contract price is then the same as your gross profit from the sale.

TIP *If the mortgage the buyer assumes is equal to or more than your installment sale basis, the gross profit percentage always will be 100%.*

Example. The selling price for your property is $9,000. The buyer will pay you $1,000 annually (plus 8% interest) over the next 3 years and assume an existing mortgage of $6,000. Your adjusted basis in the property is $4,400. You have selling expenses of $600, for a total installment sale basis of $5,000. The part of the mortgage that is more than your installment sale basis is $1,000 ($6,000 − $5,000). This amount is included in the contract price and treated as a payment received in the year of sale. The contract price is $4,000:

Selling price		$9,000
Minus: Mortgage		(6,000)
Amount actually received		**$3,000**
Add difference:		
Mortgage	$6,000	
Minus: Installment sale basis	5,000	1,000
Contract price		**$4,000**

Your gross profit on the sale is also $4,000:

Selling price	$9,000
Minus: Installment sale basis	(5,000)
Gross profit	**$4,000**

Your gross profit percentage is 100%. Report 100% of each payment (less interest) as gain from the sale. Treat the $1,000 difference between the mortgage and your installment sale basis as a payment and report 100% of it as gain in the year of sale.

Mortgage Canceled

If the buyer of your property is the person who holds the mortgage on it, your debt is canceled, not assumed. You are considered to receive a payment equal to the outstanding canceled debt.

Example. Mary Jones loaned you $45,000 in 2004 in exchange for a note mortgaging a tract of land you owned. On April 4, 2008, she bought the land for $70,000. At that time, $30,000 of her loan to you was outstanding. She agreed to forgive this $30,000 debt and to pay you $20,000 (plus interest) on August 1, 2008, and $20,000 on August 1, 2009. She did not assume an existing mortgage. She canceled the $30,000 debt you owed her. You are considered to have received a $30,000 payment at the time of the sale.

Buyer Assumes Other Debts

If the buyer assumes any other debts, such as a loan or back taxes, it may be considered a payment to you in the year of sale.

If the buyer assumes the debt instead of paying it off, only part of it may have to be treated as a payment. Compare the debt to your installment sale basis in the property being sold. If the debt is less than your installment sale basis, none of it is treated as a payment. If it is more, only the difference is treated as a payment. If the buyer assumes more than one debt, any part of the total that is more than your installment sale basis is considered a payment. These rules are the same as the rules discussed earlier under *Buyer Assumes Mortgage*. However, they apply only to the following types of debt the buyer assumes.

- Those acquired from ownership of the property you are selling, such as a mortgage, lien, overdue interest, or back taxes.
- Those acquired in the ordinary course of your business, such as a balance due for inventory you purchased.

If the buyer assumes any other type of debt, such as a personal loan or your legal fees relating to the sale, it is treated as if the buyer had paid off the debt at the time of the sale. The value of the assumed debt is then considered a payment to you in the year of sale.

Property Used As a Payment

If you receive property rather than money from the buyer, it is still considered a payment in the year received. However, see *Like-Kind Exchange,* later.

Generally, the amount of the payment is the property's FMV on the date you receive it.

Exception. If the property the buyer gives you is payable on demand or readily tradable, the amount you should consider as payment in the year received is:

- The FMV of the property on the date you receive it if you use the cash receipts and disbursements method of accounting,
- The face amount of the obligation on the date you receive it if you use the accrual method of accounting, or
- The stated redemption price at maturity less any original issue discount (OID) or, if there is no OID, the stated redemption price at maturity appropriately discounted to reflect total unstated interest. See *Unstated Interest and Original Issue Discount (OID)*, later.

Debt not payable on demand. Any evidence of debt you receive from the buyer that is not payable on demand is not considered a payment. This is true even if the debt is guaranteed by a third party, including a government agency.

Fair market value (FMV). This is the price at which property would change hands between a willing buyer and a willing seller, neither being under any compulsion to buy or sell and both having a reasonable knowledge of all the necessary facts.

Third-party note. If the property the buyer gives you is a third-party note (or other obligation of a third party), you are considered to have received a payment equal to the note's FMV. Because the FMV of the note is itself a payment on your installment sale, any payments you later receive from the third party are not considered payments on the sale. The excess of the note's face value over its FMV is interest. Exclude this interest in determining the selling price of the property. However, see *Exception* under *Property Used As a Payment*, earlier.

Example. You sold real estate in an installment sale. As part of the down payment, the buyer assigned to you a $50,000, 8% interest third-party note. The FMV of the third-party note at the time of the sale was $30,000. This amount, not $50,000, is a payment to you in the year of sale. The third-party note had an FMV equal to 60% of its face value ($30,000 ÷ $50,000), so 60% of each principal payment you receive on this note is a nontaxable return of capital. The remaining 40% is interest taxed as ordinary income.

Bond. A bond or other evidence of debt you receive from the buyer that is payable on demand or readily tradable in an established securities market is treated as a payment in the year you receive it. For more information on the amount you should treat as a payment, see *Exception* under *Property Used As a Payment*, earlier.

If you receive a government or corporate bond for a sale before October 22, 2004, and the bond has interest coupons attached or can be readily traded in an established securities market, you are considered to have received payment equal to the bond's FMV. However, see *Exception*, earlier.

Buyer's note. The buyer's note (unless payable on demand) is not considered payment on the sale. However, its full face value is included when figuring the selling price and the contract price. Payments you receive on the note are used to figure your gain in the year received.

Installment Obligation Used as Security (Pledge Rule)

If you use an installment obligation to secure any debt, the net proceeds from the debt may be treated as a payment on the installment obligation. This is known as the pledge rule and it applies if the selling price of the property is over $150,000. It does not apply to the following dispositions.

- Sales of property used or produced in farming.
- Sales of personal-use property.
- Qualifying sales of time-shares and residential lots.

The net debt proceeds are the gross debt minus the direct expenses of getting the debt. The amount treated as a payment is considered received on the later of the following dates.

- The date the debt becomes secured.
- The date you receive the debt proceeds.

A debt is secured by an installment obligation to the extent that payment of principal or interest on the debt is directly secured (under the terms of the loan or any underlying arrangement) by any interest in the installment obligation. For sales after December 16, 1999, payment on a debt is treated as directly secured by an interest in an installment obligation to the extent an arrangement allows you to satisfy all or part of the debt with the installment obligation.

Limit. The net debt proceeds treated as a payment on the pledged installment obligation cannot be more than the excess of item (1) over item (2), below.

1. The total contract price on the installment sale.
2. Any payments received on the installment obligation before the date the net debt proceeds are treated as a payment.

Installment payments. The pledge rule accelerates the reporting of the installment obligation payments. Do not report payments received on the obligation after it has been pledged until the payments received exceed the amount reported under the pledge rule.

Exception. The pledge rule does not apply to pledges made after December 17, 1987, to refinance a debt under the following circumstances.

- The debt was outstanding on December 17, 1987.
- The debt was secured by that installment sale obligation on that date and at all times thereafter until the refinancing occurred.

A refinancing as a result of the creditor's calling of the debt is treated as a continuation of the original debt so long as a person other than the creditor or a person related to the creditor provides the refinancing.

This exception applies only to refinancing that does not exceed the principal of the original debt immediately before the refinancing. Any excess is treated as a payment on the installment obligation.

Escrow Account

In some cases, the sales agreement or a later agreement may call for the buyer to establish an irrevocable escrow account from which the remaining installment payments (including interest) are to be made. These sales cannot be reported on the installment method. The buyer's obligation is paid in full when the balance of the purchase price is deposited into the escrow account. When an escrow account is established, you no longer rely on the buyer for the rest of the payments, but on the escrow arrangement.

Example. You sell property for $100,000. The sales agreement calls for a down payment of $10,000 and payment of $15,000 in each of the next 6 years to be made from an irrevocable escrow account containing the balance of the purchase price plus interest. You cannot report the sale on the installment method because the full purchase price is considered received in the year of sale. You report the entire gain in the year of sale.

Escrow established in a later year. If you make an installment sale and in a later year an irrevocable escrow account is established to pay the remaining installments plus interest, the amount placed in the escrow account represents payment of the balance of the installment obligation.

Substantial restriction. If an escrow arrangement imposes a substantial restriction on your right to receive the sale proceeds, the sale can be reported on the installment method, provided it otherwise qualifies. For an escrow arrangement to impose a substantial restriction, it must serve a bona fide purpose of the buyer, that is, a real and definite restriction placed on the seller or a specific economic benefit conferred on the buyer.

Depreciation Recapture Income

If you sell property for which you claimed or could have claimed a depreciation deduction, you must report any depreciation recapture income in the year of sale, whether or not an installment payment was received that year. Figure your depreciation recapture income (including the section 179 deduction and the section 179A deduction recapture) in Part III of Form 4797. Report the recapture income in Part II of Form 4797 as ordinary income in the year of sale. The recapture income is also included in Part I of Form 6252. However, the gain equal to the recapture income is reported in full in the year of the sale. Only the gain greater than the recapture income is reported on the installment method. For more information on depreciation recapture, see chapter 3 in Publication 544.

The recapture income reported in the year of sale is included in your installment sale basis in determining your gross profit on the installment sale. Determining gross profit is discussed under *General Rules,* earlier.

Sale to a Related Person

If you sell depreciable property to a related person and the sale is an installment sale, you may not be able to report the sale using the installment method. If you sell property to a related person and the related person disposes of the property before you receive all payments with respect to the sale, you may have to treat the amount realized by the related person as received by you when the related person disposes of the property. These rules are explained next under *Sale of Depreciable Property* and later under *Sale and Later Disposition*.

Sale of Depreciable Property

If you sell depreciable property to certain related persons, you generally cannot report the sale using the installment method. Instead, all payments to be received are considered received in the year of sale. However, see *Exception*, later. Depreciable property for this rule is any property the purchaser can depreciate.

Payments to be received include the total of all noncontingent payments and the FMV of any payments contingent as to amount.

In the case of contingent payments for which the FMV cannot be reasonably determined, your basis in the property is recovered proportionately. The purchaser cannot increase the basis of the property acquired in the sale before the seller includes a like amount in income.

Exception. You can use the installment method to report a sale of depreciable property to a related person if no significant tax deferral benefit will be derived from the sale. You must show to the satisfaction of the IRS that avoidance of federal income tax was not one of the principal purposes of the sale.

Related person. Related persons include the following.

- A person and all entities that are controlled entities with respect to such person.
- A taxpayer and any trust in which such taxpayer (or his spouse) is a beneficiary, unless such beneficiary's interest in the trust is a remote contingent interest.
- Except in the case of a sale or exchange in satisfaction of a pecuniary bequest, an executor of an estate and a beneficiary of such estate.
- Two or more partnerships in which the same person owns, directly or indirectly, more than 50% of the capital interests or the profits interests.

For information about which entities are controlled entities, see section 1239(c) of the Internal Revenue Code.

Sale and Later Disposition

Generally, a special rule applies if you sell or exchange property to a related person on the installment method (first disposition) who then sells, exchanges, or gives away the property (second disposition) under the following circumstances.

- The related person makes the second disposition before making all payments on the first disposition.
- The related person disposes of the property within 2 years of the first disposition. This rule does not apply if the property involved is marketable securities.

Under this rule, you treat part or all of the amount the related person realizes (or the FMV if the disposed property is not sold or exchanged) from the second disposition as if you received it at the time of the second disposition.

See *Exception*, later.

Related person. Related persons include the following.

- Members of a family, including only brothers and sisters (either whole or half), husband and wife, ancestors, and lineal descendants.
- A partnership or estate and a partner or beneficiary.
- A trust (other than a section 401(a) employees trust) and a beneficiary.
- A trust and an owner of the trust.
- Two corporations that are members of the same controlled group as defined in section 267(f) of the Internal Revenue Code.
- The fiduciaries of two different trusts, and the fiduciary and beneficiary of two different trusts, if the same person is the grantor of both trusts.
- A tax-exempt educational or charitable organization and a person (if an individual, including members of the individual's family) who directly or indirectly controls such an organization.
- An individual and a corporation when the individual owns, directly or indirectly, more than 50% of the value of the outstanding stock of the corporation.
- A fiduciary of a trust and a corporation when the trust or the grantor of the trust owns, directly or indirectly, more than 50% in value of the outstanding stock of the corporation.
- The grantor and fiduciary, and the fiduciary and beneficiary, of any trust.
- Any two S corporations if the same persons own more than 50% in value of the outstanding stock of each corporation.
- An S corporation and a corporation that is not an S corporation if the same persons own more than 50% in value of the outstanding stock of each corporation.
- A corporation and a partnership if the same persons own more than 50% in value of the outstanding stock of the corporation and more than 50% of the capital or profits interest in the partnership.
- An executor and a beneficiary of an estate unless the sale is in satisfaction of a pecuniary bequest.

Example 1. In 2007, Harvey Green sold farm land to his son Bob for $500,000, which was to be paid in five equal payments over 5 years, plus adequate stated interest on the balance due. His installment sale basis for the farm land was $250,000 and the property was not subject to any outstanding liens or mortgages. His gross profit percentage is 50% (gross profit of $250,000 ÷ contract price of $500,000). He received $100,000 in 2007 and included $50,000 in income for that year ($100,000 × 0.50). Bob made no improvements to the property and sold it to Alfalfa Inc., in 2008 for $600,000 after making the payment for that year. The amount realized from the second disposition is $600,000. Harvey figures his installment sale income for 2008 as follows:

Lesser of: 1) Amount realized on second disposition, or 2) Contract price on first disposition	$500,000
Subtract: Sum of payments from Bob in 2007 and 2008	- 200,000
Amount treated as received because of second disposition	$300,000
Add: Payment from Bob in 2008 . .	+ 100,000
Total payments received and treated as received for 2008 . . .	$400,000
Multiply by gross profit %	× .50
Installment sale income for 2008	$200,000

Harvey will not include in his installment sale income any principal payments he receives on the installment obligation for 2009, 2010 and 2011 because he has already reported the total payments of $500,000 from the first disposition ($100,000 in 2007 and $400,000 in 2008).

Example 2. Assume the facts are the same as *Example 1* except that Bob sells the property for only $400,000. The gain for 2008 is figured as follows:

Lesser of: 1) Amount realized on second disposition, or 2) Contract price on first disposition	$400,000
Subtract: Sum of payments from Bob in 2007 and 2008	– 200,000
Amount treated as received because of second disposition	$200,000
Add: Payment from Bob in 2008 . .	+ 100,000
Total payments received and treated as received for 2008 . . .	$300,000
Multiply by gross profit %	× .50
Installment sale income for 2008	$150,000

Harvey receives a $100,000 payment in 2009 and another in 2010. They are not taxed because he treated the $200,000 from the disposition in 2008 as a payment received and paid tax on the installment sale income. In 2011, he receives the final $100,000 payment. He figures the installment sale income he must recognize in 2011 as follows:

Total payments from the first disposition received by the end of 2011		$500,000
Minus the sum of:		
Payment from 2007 . .	$100,000	
Payment from 2008 . .	100,000	
Amount treated as received in 2008	200,000	
Total on which gain was previously recognized		– 400,000
Payment on which gain is recognized for 2011		$100,000
Multiply by gross profit %		× .50
Installment sale income for 2011		$ 50,000

Exception. This rule does not apply to a second disposition, and any later transfer, if you can show to the satisfaction of the IRS that neither the first disposition (to the related person) nor the second disposition had as one of its principal purposes the avoidance of federal income tax. Generally, an involuntary second disposition will qualify under the nontax avoidance exception, such as when a creditor of the related person forecloses on the property or the related person declares bankruptcy.

The nontax avoidance exception also applies to a second disposition that is also an installment sale if the terms of payment under the installment resale are substantially equal to or longer than those for the first installment sale. However, the exception does not apply if the resale terms permit significant deferral of recognition of gain from the first sale.

In addition, any sale or exchange of stock to the issuing corporation is not treated as a first disposition. An involuntary conversion is not treated as a second disposition if the first disposition occurred before the threat of conversion. A transfer after the death of the person making the first disposition or the related person's death, whichever is earlier, is not treated as a second disposition.

Like-Kind Exchange

If you trade business or investment property solely for the same kind of property to be held as business or investment property, you can postpone reporting the gain. These trades are known as like-kind exchanges. The property you receive in a like-kind exchange is treated as if it were a continuation of the property you gave up.

You do not have to report any part of your gain if you receive only like-kind property. However, if you also receive money or other property (boot) in the exchange, you must report your gain to the extent of the money and the FMV of the other property received.

For more information on like-kind exchanges, see *Like-Kind Exchanges* in chapter 1 of Publication 544.

Installment payments. If, in addition to like-kind property, you receive an installment obligation in the exchange, the following rules apply to determine the installment sale income each year.

- The contract price is reduced by the FMV of the like-kind property received in the trade.
- The gross profit is reduced by any gain on the trade that can be postponed.
- Like-kind property received in the trade is not considered payment on the installment obligation.

Example. In 2008, George Brown trades personal property with an installment sale basis of $400,000 for like-kind property having an FMV of $200,000. He also receives an installment note for $800,000 in the trade. Under the terms of the note, he is to receive $100,000 (plus interest) in 2009 and the balance of $700,000 (plus interest) in 2010.

George's selling price is $1,000,000 ($800,000 installment note + $200,000 FMV of like-kind property received). His gross profit is $600,000 ($1,000,000 − $400,000 installment sale basis). The contract price is $800,000 ($1,000,000 − $200,000). The gross profit percentage is 75% ($600,000 ÷ $800,000). He reports no gain in 2008 because the like-kind property he receives is not treated as a payment for figuring gain. He reports $75,000 gain for 2009 (75% of $100,000 payment received) and $525,000 gain for 2010 (75% of $700,000 payment received).

Deferred exchanges. A deferred exchange is one in which you transfer property you use in business or hold for investment and receive like-kind property later that you will use in business or hold for investment. Under this type of exchange, the person receiving your property may be required to place funds in an escrow account or trust. If certain rules are met, these funds will not be considered a payment until you have the right to receive the funds or, if earlier, the end of the exchange period. See Regulations section 1.1031(k)-1(j)(2) for these rules.

Contingent Payment Sale

A contingent payment sale is one in which the total selling price cannot be determined by the end of the tax year of sale. This happens, for example, if you sell your business and the selling price includes a percentage of its profits in future years.

If the selling price cannot be determined by the end of the tax year, you must use different rules to figure the contract price and the gross profit percentage than those you use for an installment sale with a fixed selling price.

For rules on using the installment method for a contingent payment sale, see Regulations section 15a.453-1(c).

Single Sale of Several Assets

If you sell different types of assets in a single sale, you must identify each asset to determine whether you can use the installment method to report the sale of that asset. You also have to allocate part of the selling price to each asset. If you sell assets that constitute a trade or business, see *Sale of a Business,* later.

Unless an allocation of the selling price has been agreed to by both parties in an arm's-length transaction, you must allocate the selling price to an asset based on its FMV. If the buyer assumes a debt, or takes the property subject to a debt, you must reduce the FMV of the property by the debt. This becomes the net FMV.

A sale of separate and unrelated assets of the same type under a single contract is reported as one transaction for the installment method. However, if an asset is sold at a loss, its disposition cannot be reported on the installment method. It must be reported separately. The remaining assets sold at a gain are reported together.

Example. You sold three separate and unrelated parcels of real property (A, B, and C) under a single contract calling for a total selling price of $130,000. The total selling price consisted of a cash payment of $20,000, the buyer's assumption of a $30,000 mortgage on parcel B, and an installment obligation of $80,000 payable in eight annual installments, plus interest at 8% a year.

Your installment sale basis for each parcel was $15,000. Your net gain was $85,000 ($130,000 − $45,000). You report the gain on the installment method.

The sales contract did not allocate the selling price or the cash payment received in the year of sale among the individual parcels. The FMV of parcels A, B, and C were $60,000, $60,000 and $10,000, respectively.

The installment sale basis for parcel C was more than its FMV, so it was sold at a loss and must be treated separately. You must allocate the total selling price and the amounts received in the year of sale between parcel C and the remaining parcels.

Of the total $130,000 selling price, you must allocate $120,000 to parcels A and B together and $10,000 to parcel C. You should allocate the cash payment of $20,000 received in the year of sale and the note receivable on the basis of their proportionate net FMV. The allocation is figured as follows:

	Parcels A and B	Parcel C
FMV	$120,000	$10,000
Minus: Mortgage assumed	30,000	-0-
Net FMV	$ 90,000	$10,000
Proportionate net FMV: Percentage of total	90%	10%
Payments in year of sale:		
$20,000 × 90%	$18,000	
$20,000 × 10%		$2,000
Excess of parcel B mortgage over installment sale basis	15,000	-0-
Allocation of payments received (or considered received) in year of sale	$ 33,000	$ 2,000

You cannot report the sale of parcel C on the installment method because the sale results in a loss. You report this loss of $5,000 ($10,000 selling price – $15,000 installment sale basis) in the year of sale. However, if parcel C was held for personal use, the loss is not deductible.

You allocate the installment obligation of $80,000 to the properties sold based on their proportionate net FMVs (90% to parcels A and B, 10% to parcel C).

Sale of a Business

The installment sale of an entire business for one overall price under a single contract is not the sale of a single asset.

Allocation of Selling Price

To determine whether any of the gain on the sale of the business can be reported on the installment method, you must allocate the total selling price and the payments received in the year of sale between each of the following classes of assets.

1. Assets sold at a loss.
2. Real and personal property eligible for the installment method.
3. Real and personal property ineligible for the installment method, including:
   a. Inventory,
   b. Dealer property, and
   c. Stocks and securities.

Inventory. The sale of inventories of personal property cannot be reported on the installment method. All gain or loss on their sale must be reported in the year of sale, even if you receive payment in later years.

If inventory items are included in an installment sale, you may have an agreement stating which payments are for inventory and which are for the other assets being sold. If you do not, each payment must be allocated between the inventory and the other assets sold.

Report the amount you receive (or will receive) on the sale of inventory items as ordinary business income. Use your basis in the inventory to figure the cost of goods sold. Deduct the part of the selling expenses allocated to inventory as an ordinary business expense.

Residual method. Except for assets exchanged under the like-kind exchange rules, both the buyer and seller of a business must use the residual method to allocate the sale price to each business asset sold. This method determines gain or loss from the transfer of each asset and the buyer's basis in the assets.

The residual method must be used for any transfer of a group of assets that constitutes a trade or business and for which the buyer's basis is determined only by the amount paid for the assets. This applies to both direct and indirect transfers, such as the sale of a business or the sale of a partnership interest in which the basis of the buyer's share of the partnership assets is adjusted for the amount paid under section 743(b) of the Internal Revenue Code.

A group of assets constitutes a trade or business if goodwill or going concern value could, under any circumstances, attach to the assets or if the use of the assets would constitute an active trade or business under section 355 of the Internal Revenue Code.

The residual method provides for the consideration to be reduced first by cash and general deposit accounts (including checking and savings accounts but excluding certificates of deposit). The consideration remaining after this reduction must be allocated among the various business assets in a certain order.

For asset acquisitions occurring after March 15, 2001, make the allocation among the following assets in proportion to (but not more than) their fair market value on the purchase date in the following order.

1. Certificates of deposit, U.S. Government securities, foreign currency, and actively traded personal property, including stock and securities.
2. Accounts receivable, other debt instruments, and assets that you mark to market at least annually for federal income tax purposes. However, see section 1.338-6(b)(2)(iii) of the regulations for exceptions that apply to debt instruments issued by persons related to a target corporation, contingent debt instruments, and debt instruments convertible into stock or other property.
3. Property of a kind that would properly be included in inventory if on hand at the end of the tax year or property held by the taxpayer primarily for sale to customers in the ordinary course of business.
4. All other assets except section 197 intangibles.
5. Section 197 intangibles except goodwill and going concern value.
6. Goodwill and going concern value (whether or not they qualify as section 197 intangibles).

If an asset described in (1) through (6) is includible in more than one category, include it in the lower number category. For example, if an asset is described in both (4) and (6), include it in (4).

Agreement. The buyer and seller may enter into a written agreement as to the allocation of any consideration or the fair market value of any of the assets. This agreement is binding on both parties unless the IRS determines the amounts are not appropriate.

Reporting requirement. Both the buyer and seller involved in the sale of business assets must report to the IRS the allocation of the sales price among section 197 intangibles and the other business assets. Use Form 8594, Asset Acquisition Statement, to provide this information. The buyer and seller should each attach Form 8594 to their federal income tax return for the year in which the sale occurred.

Sale of Partnership Interest

A partner who sells a partnership interest at a gain may be able to report the sale on the installment method. The sale of a partnership interest is treated as the sale of a single capital asset. The part of any gain or loss from unrealized receivables or inventory items will be treated as ordinary income. (The term unrealized receivables includes depreciation recapture income, discussed earlier.)

The gain allocated to the unrealized receivables and the inventory cannot be reported under the installment method. The gain allocated to the other assets can be reported under the installment method.

For more information on the treatment of unrealized receivables and inventory, see Publication 541.

Example — Sale of a Business

On June 4, 2008, you sold the machine shop you had operated since 1999. You received a $100,000 down payment and the buyer's note for $120,000. The note payments are $15,000 each, plus 10% interest, due every July 1 and January 1, beginning in 2009. The total selling price is $220,000. Your selling expenses are $11,000.

The selling expenses are divided among all the assets sold, including inventory. Your selling expense for each asset is 5% of the asset's selling price ($11,000 selling expense ÷ $220,000 total selling price).

The FMV, adjusted basis and depreciation claimed on each asset sold are as follows:

Asset	FMV	Depreciation Claimed	Adjusted Basis
Inventory	$ 10,000	-0-	$ 8,000
Land	42,000	-0-	15,000
Building	48,000	$9,000	36,000
Machine A	71,000	$27,200	63,800
Machine B	24,000	12,960	22,040
Truck	6,500	18,624	5,376
	$201,500	$67,784	$150,216

Under the residual method, you allocate the selling price to each of the assets based on their FMV ($201,500). The remaining $18,500 ($220,000 - $201,500) is allocated to your section 197 intangible, goodwill.

The assets included in the sale, their selling prices based on their FMVs, the selling expense allocated to each asset, the adjusted basis, and the gain for each asset are shown in the following chart.

	Sale Price	Sale Exp.	Adj. Basis	Gain
Inventory	$ 10,000	$ 500	$ 8,000	$ 1,500
Land	42,000	2,100	15,000	24,900
Building	48,000	2,400	36,000	9,600
Mch. A	71,000	3,550	63,800	3,650
Mch. B	24,000	1,200	22,040	760
Truck	6,500	325	5,376	799
Goodwill	18,500	925	-0-	17,575
	$220,000	$11,000	$150,216	$58,784

The building was acquired in 1999, the year the business began, and it is section 1250 property. There is no depreciation recapture income because the building was depreciated using the straight line method.

All gain on the truck, machine A, and machine B is depreciation recapture income since it is the lesser of the depreciation claimed or the gain on the sale. Figure depreciation recapture in Part III of Form 4797.

The total depreciation recapture income reported in Part II of Form 4797 is $5,209. This consists of $3,650 on machine A, $799 on the truck, and $760 on machine B (the gain on each item because it was less than the depreciation claimed). These gains are reported in full in the year of sale and are not included in the installment sale computation.

Of the $220,000 total selling price, the $10,000 for inventory assets cannot be reported using the installment method. The selling prices of the truck and machines are also removed from the total selling price because gain on these items is reported in full in the year of sale.

The selling price equals the contract price for the installment sale ($108,500). The assets included in the installment sale, their selling price, and their installment sale bases are shown in the following chart.

	Selling Price	Installment Sale Basis	Gross Profit
Land	$ 42,000	$17,100	$24,900
Building	48,000	38,400	9,600
Goodwill	18,500	925	17,575
Total	$108,500	$56,425	$52,075

The gross profit percentage (gross profit ÷ contract price) for the installment sale is 48% ($52,075 ÷ $108,500). The gross profit percentage for each asset is figured as follows:

	Percentage
Land— $24,900 ÷ $108,500	22.95
Building— $9,600 ÷ $108,500	8.85
Goodwill— $17,575 ÷ $108,500	16.20
Total	48.00

The sale includes assets sold on the installment method and assets for which the gain is reported in full in the year of sale, so payments must be allocated between the installment part of the sale and the part reported in the year of sale. The selling price for the installment sale is $108,500. This is 49.3% of the total selling price of $220,000 ($108,500 ÷ $220,000). The selling price of assets not reported on the installment method is $111,500. This is 50.7% ($111,500 ÷ $220,000) of the total selling price.

Multiply principal payments by 49.3% to determine the part of the payment for the installment sale. The balance, 50.7%, is for the part reported in the year of the sale.

The gain on the sale of the inventory, machines, and truck is reported in full in the year of sale. When you receive principal payments in later years, no part of the payment for the sale of these assets is included in gross income. Only the part for the installment sale (49.3%) is used in the installment sale computation.

The only payment received in 2008 is the down payment of $100,000. The part of the payment for the installment sale is $49,300 ($100,000 × 49.3%). This amount is used in the installment sale computation.

Installment income for 2008. Your installment income for each asset is the gross profit percentage for that asset times $49,300, the installment income received in 2008.

	Income
Land—22.95% of $49,300	$11,314
Building—8.85% of $49,300	4,363
Goodwill—16.2% of $49,300	7,987
Total installment income for 2008	$23,664

Installment income after 2008. You figure installment income for years after 2008 by applying the same gross profit percentages to 49.3% of the total payments you receive on the buyer's note during the year.

Unstated Interest and Original Issue Discount (OID)

An installment sale contract may provide that each deferred payment on the sale will include interest or that there will be an interest payment in addition to the principal payment. Interest provided in the contract is called stated interest.

If an installment sale contract does not provide for adequate stated interest, part of the stated principal amount of the contract may be recharacterized as interest. If section 483 applies to the contract, this interest is called unstated interest. If section 1274 applies to the contract, this interest is called original issue discount (OID).

An installment sale contract does not provide for adequate stated interest if the stated interest rate is lower than the test rate (defined later).

Treatment of unstated interest and OID. Generally, if a buyer gives a debt in consideration for personal use property, the unstated interest rules do not apply. Therefore, the buyer cannot deduct the unstated interest. The seller must report the unstated interest as income.

Personal-use property is any property in which substantially all of its use by the buyer is not in connection with a trade or business or an investment activity.

If the debt is subject to the section 483 rules and is also subject to the below-market loan rules, such as a gift loan, compensation-related loan or corporation-shareholder loan, then both parties are subject to the below-market loan rules rather than the unstated interest rules.

Rules for the seller. If either section 1274 or section 483 applies to the installment sale contract, you must treat part of the installment sale price as interest, even though interest is not called for in the sales agreement. If either section applies, you must reduce the stated selling price of the property and increase your interest income by this unstated interest.

Include the unstated interest in income based on your regular method of accounting. Include OID in income over the term of the contract.

The OID includible in income each year is based on the constant yield method described in section 1272. (In some cases, the OID on an installment sale contract also may include all or part of the stated interest, especially if the stated interest is not paid at least annually.)

If you do not use the installment method to report the sale, report the entire gain under your method of accounting in the year of sale. Reduce the selling price by any stated principal treated as interest to determine the gain.

Report unstated interest or OID on your tax return, in addition to stated interest.

Rules for the buyer. Any part of the stated selling price of an installment sale contract treated by the buyer as interest reduces the buyer's basis in the property and increases the buyer's interest expense. These rules do not apply to personal-use property (for example, property not used in a trade or business).

Adequate stated interest. An installment sale contract generally provides for adequate stated interest if the contract's stated principal amount is at least equal to the sum of the present values of all principal and interest payments called for under the contract. The present value of a payment is determined based on the test rate of interest, defined next. (If section 483 applies to the contract, payments due within six months after the sale are taken into account at face value.) In general, an installment sale contract provides for adequate stated interest if the stated interest rate (based on an appropriate compounding period) is at least equal to the test rate of interest.

Test rate of interest. The test rate of interest for a contract is the 3-month rate. The 3-month rate is the lower of the following applicable federal rates (AFRs).

- The lowest AFR (based on the appropriate compounding period) in effect during the 3-month period ending with the first month in which there is a binding written contract that substantially provides the terms under which the sale or exchange is ultimately completed.
- The lowest AFR (based on the appropriate compounding period) in effect during the 3-month period ending with the month in which the sale or exchange occurs.

Applicable federal rate (AFR). The AFR depends on the month the binding contract for the sale or exchange of property is made or the month of the sale or exchange and the term of the instrument. For an installment obligation, the term of the instrument is its weighted average maturity, as defined in Regulations section 1.1273-1(e)(3). The AFR for each term is shown below.

- For a term of 3 years or less, the AFR is the federal short-term rate.
- For a term of over 3 years, but not over 9 years, the AFR is the federal mid-term rate.
- For a term of over 9 years, the AFR is the federal long-term rate.

The applicable federal rates are published monthly in the Internal Revenue Bulletin (IRB). You can get this information by contacting an IRS office. IRBs are also available on the IRS web site at www.irs.gov.

Seller financed sales. For sales or exchanges of property (other than new section 38 property, which includes most tangible personal property) involving seller financing of $4,913,400 or less, the test rate of interest cannot be more than 9%, compounded semiannually. For seller financing over $4,913,400 and for all sales or exchanges of new section 38 property, the test rate of interest is 100% of the AFR.

For information on new section 38 property, see section 48(b) of the Internal Revenue Code, as in effect before the enactment of Public Law 101-508.

Certain land transfers between related persons. In the case of certain land transfers between related persons (described later), the test rate is no more than 6 percent, compounded semiannually.

Internal Revenue Code sections 1274 and 483. If an installment sale contract does not provide for adequate stated interest, generally either section 1274 or section 483 will apply to the contract. These sections recharacterize part of the stated principal amount as interest. Whether either of these sections applies to a particular installment sale contract depends on several factors, including the total selling price and the type of property sold.

Determining whether section 1274 or section 483 applies. For purposes of determining whether either section 1274 or section 483 applies to an installment sale contract, all sales or exchanges that are part of the same transaction (or related transactions) are treated as a single sale or exchange and all contracts arising from the same transaction (or a series of related transactions) are treated as a single contract. Also, the total consideration due under an installment sale contract is determined at the time of the sale or exchange. Any payment (other than a debt instrument) is taken into account at its FMV.

Section 1274

Section 1274 applies to a debt instrument issued for the sale or exchange of property if any payment under the instrument is due more than 6 months after the date of the sale or exchange and the instrument does not provide for adequate stated interest. Section 1274, however, does not apply to an installment sale contract that is a cash method debt instrument (defined next) or that arises from the following transactions.

- A sale or exchange for which the total payments are $250,000 or less.
- The sale or exchange of an individual's main home.
- The sale or exchange of a farm for $1,000,000 or less by an individual, an estate, a testamentary trust, a small business corporation (defined in section 1244(c)(3)), or a domestic partnership that meets requirements similar to those of section 1244(c)(3).
- Certain land transfers between related persons (described later).

Cash method debt instrument. This is any debt instrument given as payment for the sale or exchange of property (other than new section 38 property) with a stated principal of $3,509,600 or less if the following items apply.

1. The lender (holder) does not use an accrual method of accounting and is not a dealer in the type of property sold or exchanged.
2. Both the borrower (issuer) and the lender jointly elect to account for interest under the cash method of accounting.
3. Section 1274 would apply except for the election in (2) above.

Land transfers between related persons. The section 483 rules (discussed next) apply to debt instruments issued in a land sale between related persons to the extent the sum of the following amounts does not exceed $500,000.

- The stated principal of the debt instrument issued in the sale or exchange.
- The total stated principal of any other debt instruments for prior land sales between these individuals during the calendar year.

The section 1274 rules, if otherwise applicable, apply to debt instruments issued in a sale of land to the extent the stated principal amount exceeds $500,000, or if any party to the sale is a nonresident alien.

Related persons include an individual and the members of the individual's family and their spouses. Members of an individual's family include the individual's spouse, brothers and sisters (whole or half), ancestors, and lineal descendants. Membership in the individual's family can be the result of a legal adoption.

Section 483

Section 483 generally applies to an installment sale contract that does not provide for adequate stated interest and is not covered by section 1274. Section 483, however, generally does not apply to an installment sale contract that arises from the following transactions.

- A sale or exchange for which no payments are due more than one year after the date of the sale or exchange.
- A sale or exchange for $3,000 or less.

Exceptions to Sections 1274 and 483

Sections 1274 and 483 do not apply under the following circumstances.

- An assumption of a debt instrument in connection with a sale or exchange or the acquisition of property subject to a debt instrument, unless the terms or conditions of the debt instrument are modified in a manner that would constitute a deemed exchange under Regulations section 1.1001-3.
- A debt instrument issued in connection with a sale or exchange of property if either the debt instrument or the property is publicly traded.
- A sale or exchange of all substantial rights to a patent, or an undivided interest in property that includes part or all substantial rights to a patent, if any amount is contingent on the productivity, use, or disposition of the property transferred. See chapter 2 of Publication 544 for more information.
- An annuity contract issued in connection with a sale or exchange of property if the contract is described in Internal Revenue Code section 1275(a)(1)(B) and Regulations section 1.1275-1(j).

- A transfer of property subject to Internal Revenue Code section 1041 (relating to transfers of property between spouses or incident to divorce).
- A demand loan that is a below-market loan described in Internal Revenue Code section 7872(c)(1) (for example, gift loans and corporation-shareholder loans).
- A below-market loan described in Internal Revenue Code section 7872(c)(1) issued in connection with the sale or exchange of personal-use property. This rule applies only to the holder.

More information. For information on figuring unstated interest and OID and other special rules, see Internal Revenue Code sections 1274 and 483 and the related regulations. In the case of an installment sale contract that provides for contingent payments, see Regulations sections 1.1275-4(c) and 1.483-4.

Disposition of an Installment Obligation

A disposition generally includes a sale, exchange, cancellation, bequest, distribution, or transmission of an installment obligation. An installment obligation is the buyer's note, deed of trust, or other evidence that the buyer will make future payments to you.

If you are using the installment method and you dispose of the installment obligation, generally you will have a gain or loss to report. It is considered gain or loss on the sale of the property for which you received the installment obligation. If the original installment sale produced ordinary income, the disposition of the obligation will result in ordinary income or loss. If the original sale resulted in a capital gain, the disposition of the obligation will result in a capital gain or loss.

Rules To Figure Gain or Loss

Use the following rules to figure your gain or loss from the disposition of an installment obligation.

- If you sell or exchange the obligation, or you accept less than face value in satisfaction of the obligation, your gain or loss is the difference between your basis in the obligation and the amount you realize.
- If you dispose of the obligation in any other way, your gain or loss is the difference between your basis in the obligation and its FMV at the time of the disposition. This rule applies, for example, when you give the installment obligation to someone else or cancel the buyer's debt to you.

Basis. Figure your basis in an installment obligation by multiplying the unpaid balance on the obligation by your gross profit percentage. Subtract that amount from the unpaid balance. The result is your basis in the installment obligation.

Example. Several years ago, you sold property on the installment method. The buyer still owes you $10,000 of the sale price. This is the unpaid balance on the buyer's installment obligation to you. Your gross profit percentage is 60%, so $6,000 (60% × $10,000) is the profit owed you on the obligation. The rest of the unpaid balance, $4,000, is your basis in the obligation.

Transfer between spouses or former spouses. No gain or loss is recognized on the transfer of an installment obligation between a husband and wife or a former husband and wife if the transfer is incident to a divorce. A transfer is incident to a divorce if it occurs within one year after the date on which the marriage ends or is related to the end of the marriage. The same tax treatment of the transferred obligation applies to the transferee spouse or former spouse as would have applied to the transferor spouse or former spouse. The basis of the obligation to the transferee spouse (or former spouse) is the adjusted basis of the transferor spouse.

The nonrecognition rule does not apply if the spouse or former spouse receiving the obligation is a nonresident alien.

Gift. A gift of an installment obligation is a disposition. Your gain or loss is the difference between your basis in the obligation and its FMV at the time you make the gift.

For gifts between spouses or former spouses, see *Transfer between spouses or former spouses,* earlier.

Cancellation. If an installment obligation is canceled or otherwise becomes unenforceable, it is treated as a disposition other than a sale or exchange. Your gain or loss is the difference between your basis in the obligation and its FMV at the time you cancel it. If the parties are related, the FMV of the obligation is considered to be no less than its full face value.

Forgiving part of the buyer's debt. If you accept part payment on the balance of the buyer's installment debt to you and forgive the rest of the debt, you treat the settlement as a disposition of the installment obligation. Your gain or loss is the difference between your basis in the obligation and the amount you realize on the settlement.

No Disposition

The following transactions generally are not dispositions.

Reduction of selling price. If you reduce the selling price but do not cancel the rest of the buyer's debt to you, it is not considered a disposition of the installment obligation. You must refigure the gross profit percentage and apply it to payments you receive after the reduction. See *Selling Price Reduced* under *General Rules,* earlier.

Assumption. If the buyer of your property sells it to someone else and you agree to let the new buyer assume the original buyer's installment obligation, you have not disposed of the installment obligation. It is not a disposition even if the new buyer pays you a higher rate of interest than the original buyer.

Transfer due to death. The transfer of an installment obligation (other than to a buyer) as a result of the death of the seller is not a disposition. Any unreported gain from the installment obligation is not treated as gross income to the decedent. No income is reported on the decedent's return due to the transfer. Whoever receives the installment obligation as a result of the seller's death is taxed on the installment payments the same as the seller would have been had the seller lived to receive the payments.

However, if an installment obligation is canceled, becomes unenforceable, or is transferred to the buyer because of the death of the holder of the obligation, it is a disposition. The estate must figure its gain or loss on the disposition. If the holder and the buyer were related, the FMV of the installment obligation is considered to be no less than its full face value.

Repossession

If you repossess your property after making an installment sale, you must figure the following amounts.

- Your gain (or loss) on the repossession.
- Your basis in the repossessed property.

The rules for figuring these amounts depend on the kind of property you repossess. The rules for repossessions of personal property differ from those for real property. Special rules may apply if you repossess property that was your main home before the sale. See Regulations section 1.1038-2 for further information.

The repossession rules apply whether or not title to the property was ever transferred to the buyer. It does not matter how you repossess the property, whether you foreclose or the buyer voluntarily surrenders the property to you. However, it is not a repossession if the buyer puts the property up for sale and you repurchase it.

For the repossession rules to apply, the repossession must at least partially discharge (satisfy) the buyer's installment obligation to you. The discharged obligation must be secured by the property you repossess. This requirement is met if the property is auctioned off after you foreclose and you apply the installment obligation to your bid price at the auction.

Reporting the repossession. You report gain or loss from a repossession on the same form you used to report the original sale. If you reported the sale on Form 4797, use it to report the gain or loss on the repossession.

Personal Property

If you repossess personal property, you may have a gain or a loss on the repossession. In some cases, you also may have a bad debt.

To figure your gain or loss, subtract the total of your basis in the installment obligation and any repossession expenses you have from the FMV of the property. If you receive anything from the buyer besides the repossessed property, add its value to the property's FMV before making this calculation.

How you figure your basis in the installment obligation depends on whether or not you reported the original sale on the installment method. The method you used to report the original sale also affects the character of your gain or loss on the repossession.

Installment method not used to report original sale. The following paragraphs explain how to figure your basis in the installment obligation and the character of any gain or loss if you did not use the installment method to report the gain on the original sale.

Basis in installment obligation. Your basis is figured on the obligation's full face value or its FMV at the time of the original sale, whichever you used to figure your gain or loss in the year of sale. From this amount, subtract all payments of principal you have received on the obligation. The result is your basis in the installment obligation. If only part of the obligation is discharged by the repossession, figure your basis in only that part.

Gain or loss. Add any repossession costs to your basis in the obligation. If the FMV of the property you repossess is more than this total, you have a gain. This is gain on the installment obligation, so it is all ordinary income. If the FMV of the repossessed property is less than the total of your basis plus repossession costs, you have a loss. You included the full gain in income in the year of sale, so the loss is a bad debt. How you deduct the bad debt depends on whether you sold business or nonbusiness property in the original sale. See chapter 4 of Publication 550 for information on nonbusiness bad debts and chapter 10 of Publication 535, Business Expenses, for information on business bad debts.

Installment method used to report original sale. The following paragraphs explain how to figure your basis in the installment obligation and the character of any gain or loss if you used the installment method to report the gain on the original sale.

Basis in installment obligation. Multiply the unpaid balance of your installment obligation by your gross profit percentage. Subtract that amount from the unpaid balance. The result is your basis in the installment obligation.

Gain or loss. If the FMV of the repossessed property is more than the total of your basis in the obligation plus any repossession costs, you have a gain. If the FMV is less, you have a loss. Your gain or loss on the repossession is of the same character (capital or ordinary) as your gain on the original sale.

Use Worksheet C to determine the taxable gain or loss on a repossession of personal property reported on the installment method.

Example. You sold your piano for $1,500 in December 2007 for $300 down and $100 a month (plus interest). The payments began in January 2008. Your gross profit percentage is 40%. You reported the sale on the installment method on your 2007 income tax return. After the fourth monthly payment, the buyer defaulted on the contract (which has an unpaid balance of $800) and you are forced to repossess the piano. The FMV of the piano on the date of repossession is $1,400. The legal costs of foreclosure and the expense of moving the piano back to your home total $75. You figure your gain on the repossession as follows:

Example —
Worksheet C. **Figuring Gain or Loss on Repossession of Personal Property**

Note. *Use this worksheet only if you used the installment method to report the gain on the original sale.*

1. Enter the fair market value of the repossessed property		1,400
2. Enter the unpaid balance of the installment obligation	800	
3. Enter your gross profit percentage for the installment sale	40%	
4. Multiply line 2 by line 3. This is your unrealized profit	320	
5. Subtract line 4 from line 2. This is the basis of the obligation		480
6. Enter your costs of repossessing the property		75
7. Add lines 5 and 6		555
8. Subtract line 7 from line 1. This is your gain or loss on the repossession		845

Basis in repossessed property. Your basis in repossessed personal property is its FMV at the time of the repossession.

Fair market value (FMV). The FMV of repossessed property is a question of fact to be established in each case. If you bid for the property at a lawful public auction or judicial sale, its FMV is presumed to be the price it sells for, unless there is clear and convincing evidence to the contrary.

Real Property

The rules for the repossession of real property allow you to keep essentially the same adjusted basis in the repossessed property you had before the original sale. You can recover this entire adjusted basis when you resell the property. This, in effect, cancels out the tax treatment that applied to you on the original sale and puts you in the same tax position you were in before that sale.

Worksheet C. **Figuring Gain or Loss on Repossession of Personal Property** *Keep for Your Records*

Note. *Use this worksheet only if you used the installment method to report the gain on the original sale.*

1. Enter the fair market value of the repossessed property		______
2. Enter the unpaid balance of the installment obligation	______	
3. Enter your gross profit percentage for the installment sale	______	
4. Multiply line 2 by line 3. This is your unrealized profit	______	
5. Subtract line 4 from line 2. This is the basis of the obligation		______
6. Enter your costs of repossessing the property		______
7. Add lines 5 and 6		______
8. Subtract line 7 from line 1. This is your gain or loss on the repossession		______

Therefore, the total payments you have received from the buyer on the original sale must be considered income to you. You report, as gain on the repossession, any part of the payments you have not yet included in income. These payments are amounts you previously treated as a return of your adjusted basis and excluded from income. However, the total gain you report is limited. See *Limit on taxable gain,* later.

Mandatory rules. The rules concerning basis and gain on repossessed real property are mandatory. You must use them to figure your basis in the repossessed real property and your gain on the repossession. They apply whether or not you reported the sale on the installment method. However, they apply only if all of the following conditions are met.

1. The repossession must be to protect your security rights in the property.
2. The installment obligation satisfied by the repossession must have been received in the original sale.
3. You cannot pay any additional consideration to the buyer to get your property back, unless either of the situations listed below applies.
   a. The requisition and payment of the additional consideration were provided for in the original contract of sale.
   b. The buyer has defaulted, or default is imminent.

Additional consideration includes money and other property you pay or transfer to the buyer. For example, additional consideration is paid if you reacquire the property subject to a debt that arose after the original sale.

Conditions not met. If any one of these three conditions is not met, use the rules discussed under *Personal Property,* earlier, as if the property you repossess were personal rather than real property. Do not use the rules for real property.

Figuring gain on repossession. Your gain on repossession is the difference between the following amounts.

- The total payments received, or considered received, on the sale.
- The total gain already reported as income.

See the earlier discussions under *Payments Received or Considered Received* for items considered payment on the sale.

Limit on taxable gain. Taxable gain is limited to your gross profit on the original sale minus the sum of the following amounts.

- The gain on the sale you reported as income before the repossession.
- Your repossession costs.

This method of figuring taxable gain, in essence, treats all payments received on the sale as income, but limits your total taxable gain to the gross profit you originally expected on the sale.

Indefinite selling price. The limit on taxable gain does not apply if the selling price is indefinite and cannot be determined at the time of repossession. For example, a selling price stated as a percentage of the profits to be realized from the buyer's development of the property is an indefinite selling price.

Character of gain. The taxable gain on repossession is ordinary income or capital gain, the same as the gain on the original sale. However, if you did not report the sale on the installment method, the gain is ordinary income.

Repossession costs. Your repossession costs include money or property you pay to reacquire the real property. This includes amounts paid to the buyer of the property, as well as amounts paid to others for such items as those listed below.

- Court costs and legal fees.
- Publishing, acquiring, filing, or recording of title.
- Lien clearance.

Repossession costs do not include the FMV of the buyer's obligations to you that are secured by the real property or the costs of reacquiring those obligations.

Use Worksheet D to determine the taxable gain on a repossession of real property reported on the installment method.

Example. You sold a tract of land in January 2006 for $25,000. You accepted a $5,000 down payment, plus a $20,000 mortgage secured by the property and payable at the rate of $4,000 annually plus interest (9.5%). The payments began on January 1, 2007. Your adjusted basis in the property was $19,000 and you reported the transaction as an installment sale. Your selling expenses were $1,000. You figured your gross profit as follows:

Selling price		$25,000
Minus:		
Adjusted basis	$19,000	
Selling expenses	1,000	20,000
Gross profit		$ 5,000

For this sale, the contract price equals the selling price. The gross profit percentage is 20% ($5,000 gross profit ÷ $25,000 contract price).

In 2006, you included $1,000 in income (20% × $5,000 down payment). In 2007, you reported a profit of $800 (20% × $4,000 annual installment). In 2008, the buyer defaulted and you repossessed the property. You paid $500 in legal fees to get the property back. Your taxable gain on the repossession is figured as follows:

Example —
Worksheet D. **Taxable Gain on Repossession of Real Property**

Note. *Use this worksheet to determine taxable gain on the repossession of real property if you used the installment method to report the gain on the original sale.*

1. Enter the total of all payments received or treated as received before repossession	9,000
2. Enter the total gain already reported as income	1,800
3. Subtract line 2 from line 1. This is your gain on the repossession	7,200
4. Enter your gross profit on the original sale	5,000
5. Enter your costs of repossessing the property	500
6. Add line 2 and line 5	2,300
7. Subtract line 6 from line 4	2,700
8. Enter the lesser of line 3 or line 7. This is your taxable gain on the repossession	2,700

Basis. Your basis in the repossessed property is determined as of the date of repossession. It is the sum of the following amounts.

- Your adjusted basis in the installment obligation.
- Your repossession costs.
- Your taxable gain on the repossession.

To figure your adjusted basis in the installment obligation at the time of repossession, multiply the unpaid balance by the gross profit percentage. Subtract that amount from the unpaid balance.

Use Worksheet E to determine the basis of real property repossessed.

Example. Assume the same facts as in the previous example. The unpaid balance of the installment obligation (the $20,000 note) is $16,000 at the time of repossession because the buyer made a $4,000 payment. The gross profit percentage on the original sale was 20%. Therefore, $3,200 (20% × $16,000 still due on the note) is unrealized profit. You figure your basis in the repossessed property as follows:

Example —
Worksheet E. **Basis of Repossessed Real Property**

1. Enter the unpaid balance on the installment obligation	16,000
2. Enter your gross profit percentage for the installment sale	20%
3. Multiply line 1 by line 2. This is your unrealized profit	3,200
4. Subtract line 3 from line 1. This is your adjusted basis in the installment obligation on the date of the repossession	12,800
5. Enter your taxable gain on the repossession	2,700
6. Enter your costs of repossessing the property	500
7. Add lines 4, 5, and 6. This is your basis in the repossessed real property	16,000

Holding period for resales. If you resell the repossessed property, the resale may result in a capital gain or loss. To figure whether the gain or loss is long-term or short-term, your holding period includes the period you owned the property before the original sale plus the period after the repossession. It does not include the period the buyer owned the property.

If the buyer made improvements to the reacquired property, the holding period for these improvements begins on the day after the date of repossession.

Bad debt. If you repossess real property under these rules, you cannot take a bad debt deduction for any part of the buyer's installment obligation. This is true even if the obligation is not fully satisfied by the repossession.

If you took a bad debt deduction before the tax year of repossession, you are considered to

Worksheet D. **Taxable Gain on Repossession of Real Property** *Keep for Your Records*

Note. *Use this worksheet to determine taxable gain on the repossession of real property if you used the installment method to report the gain on the original sale.*

1. Enter the total of all payments received or treated as received before repossession	
2. Enter the total gain already reported as income	
3. Subtract line 2 from line 1. This is your gain on the repossession	
4. Enter your gross profit on the original sale	
5. Enter your costs of repossessing the property	
6. Add line 2 and line 5	
7. Subtract line 6 from line 4	
8. Enter the lesser of line 3 or line 7. This is your taxable gain on the repossession	

Worksheet E. **Basis of Repossessed Real Property** *Keep for Your Records*

1. Enter the unpaid balance on the installment obligation	
2. Enter your gross profit percentage for the installment sale	
3. Multiply line 1 by line 2. This is your unrealized profit	
4. Subtract line 3 from line 1. This is your adjusted basis in the installment obligation on the date of the repossession	
5. Enter your taxable gain on the repossession	
6. Enter your costs of repossessing the property	
7. Add lines 4, 5, and 6. This is your basis in the repossessed real property	

have recovered the bad debt when you repossess the property. You must report the bad debt deduction taken in the earlier year as income in the year of repossession. However, if any part of the earlier deduction did not reduce your tax, you do not have to report that part as income. Your adjusted basis in the installment obligation is increased by the amount you report as income from recovering the bad debt.

Interest on Deferred Tax

Generally, you must pay interest on the deferred tax related to any obligation that arises during a tax year from the disposition of property under the installment method if both of the following apply.

- The property had a sales price over $150,000. In determining the sales price, treat all sales that are part of the same transaction as a single sale.
- The aggregate balance of all nondealer installment obligations arising during, and outstanding at the close of, the tax year is more than $5 million.

Subsequent years. You must pay interest in subsequent years if installment obligations that originally required interest to be paid are still outstanding at the close of a tax year.

Exceptions. This interest rule does not apply to dispositions of :

- Farm property.
- Personal use property by an individual.
- Personal property before 1989.
- Real property before 1988.

How to figure interest on deferred tax. First, find the underpayment rate in effect for the month with or within which your tax year ends. The underpayment rate is published quarterly in the Internal Revenue Bulletin, available at *www.irs.gov*. Then multiply that rate by the deferred tax. The deferred tax is equal to the balance of the unrecognized gain at the end of the tax year multiplied by your maximum tax rate (ordinary or capital gain, as appropriate) in effect for the tax year.

See IRC 453(l) for information on dealer sales of timeshares and residential lots under the installment method.

How to report the interest. Enter the interest as additional tax on your tax return. Individuals include it in the amount to be entered on the total tax line (listed below) after credits and other taxes. Write "Section 453A(c) interest" to the left of the amount. However, write "Section 453(l)(3)" instead for interest on sales of timeshares or residential lots.

1. Form 1040, line 61.
2. Form 1040NR, line 57.

Corporations include the interest in the amount to be entered on the other taxes line (listed below). Check the "Other" box, attach a schedule showing the computation of the interest, and identify it as "Section 453A(c) interest" or "Section 453(l)(3) interest."

1. Form 1120, line 9 of Schedule J.
2. Form 1120F, line 8 of Schedule J.

Corporations can deduct the interest in the year it is paid or accrued. For individuals and other taxpayers, this interest is not deductible.

Reporting an Installment Sale

Form 6252. Use Form 6252 to report a sale of property on the installment method. The form is used to report the sale in the year it takes place and to report payments received in later years. Also, if you sold property to a related person, you may have to file the form each year until the installment debt is paid off, whether or not you receive a payment in that year.

Related person. If you sold property to a related person during the year, complete lines 1 through 4 and Parts I, II, and III of Form 6252.

If you sold a marketable security to a related party after May 14, 1980, and before January 1, 1987, complete Form 6252 for each year of the installment agreement, even if you did not receive a payment. (After December 31, 1986, the installment method is not available for the sale of marketable securities.) Complete lines 1 through 4 each year. Complete Part II for any year in which you receive a payment. Complete Part III for each year except for the year in which you receive the final payment.

If you sold property other than a marketable security to a related party after May 14, 1980, complete Form 6252 for the year of the sale and for the 2 years after the year of sale, even if you did not receive a payment in those years. Complete lines 1 through 4. Complete Part II for each of the 2 years after the year of sale in which you receive a payment. Complete Part III for each of the 2 years after the year of the sale unless you received the final payment during the year.

If the related person to whom you sold your property disposes of it, you may have to immediately report the rest of your gain in Part III. See *Sale and Later Disposition* under *Sale to a Related Person,* earlier, for more information.

Several assets. If you sell two or more assets in one installment sale, you may have to separately report the sale of each asset. The same is true if you sell all the assets of your business in one installment sale. See *Single Sale of Several Assets* and *Sale of a Business,* earlier.

If you have only a few sales to separately report, use a separate Form 6252 for each one. However, if you have to separately report the sale of multiple assets that you sold together, prepare only one Form 6252 and attach a schedule with all the information for each asset that is required by Form 6252. Complete Form 6252 by following the steps listed below.

1. Answer the questions at the top of the form.
2. In the year of sale, do not complete Part I. Instead, write "See attached schedule" in the margin.
3. For Part II, enter the total for all the assets on lines 24, 25, and 26.
4. For Part III, answer all the questions that apply. If none of the exceptions under question 29 apply, enter the totals on lines 35, 36, and 37 for the disposed assets.

Special situations. If you are reporting payments from an installment sale as income in respect of a decedent or as a beneficiary of a trust, including a partial interest in such a sale, you may not be able to provide all the information asked for on Form 6252. To the extent possible, follow the instructions given above and provide as many details as possible in a statement attached to Form 6252.

For more information on how to complete Form 6252, see the form instructions.

Other forms. The gain from Form 6252 is entered on Schedule D (Form 1040), Capital Gains and Losses, Form 4797, Sales of Business Property, or both. These forms were discussed earlier under *Reporting Installment Sale Income.*

Schedule D (Form 1040). Although the references in this publication are to the Schedule D for Form 1040, the rules discussed also apply to Schedule D for Forms 1041 (estates and trusts), 1065 (partnerships), 1120 or 1120-A (corporations), and 1120S (S corporations).

Form 4797. Form 4797 is used with estate and trust, partnership, corporation, and S corporation returns, as well as individual returns.

Examples

The following examples illustrate how to fill out Form 6252. Sample filled-in forms follow.

Example 1

On November 1, 2008, Mark Moore sold a lot for $14,700, which included the outstanding balance on a loan. He had purchased the lot on February 17, 1997, for $2,650. He borrowed more on the lot than he paid for it. At the time of the sale, $6,500 remained outstanding on the loan. In the sales contract, the buyer agreed to assume the loan and pay Mark $200 a month (plus 7% interest) for 3 years. The buyer made a down payment of $1,000 on the sale and made a $242 payment in December, $42 of which was interest.

Mark fills out his 2008 Form 6252 as follows:

Line 1. Mark enters a description of the lot sold.

Lines 2a and 2b. Mark enters the date he acquired the lot and the date he sold it.

Line 3. Because Mark sold the lot to Acme Design, his corporation, he checks the *Yes* box.

Line 4. The property Mark sold was not a marketable security (such as stock or a bond). He checks the *No* box. He sold the lot to a related person, so he must complete Part III for 2008 and the next 2 years.

Part I. Mark uses this part of the form to figure the contract price and his gross profit on the sale.

Line 5. Mark enters the selling price, $14,700. This includes the $1,000 down payment, the $7,200 (36 × $200) in monthly payments he is to receive, and the $6,500 loan the buyer assumes.

Line 6. Mark enters the $6,500 in loans that the buyer assumes.

Line 7. Mark subtracts line 6 from line 5 and enters the difference, $8,200.

Line 8. He did not make any improvements to the lot, so Mark's basis at the time of the sale was the lot's cost of $2,650.

Lines 9 and 10. Mark did not take depreciation deductions on the lot (land is never depreciable). The amount on line 8 carries over to line 10.

Line 11. Mark's only selling expenses were $150 in legal fees. If he had advertised the lot for sale, or paid commission on the sale, he would have included those amounts also.

Line 12. No depreciation was claimed on the land, so Mark has no recapture of income.

Line 13. Mark's installment sale basis is $2,800, the total of his adjusted basis in the property plus his selling expenses.

Line 14. Mark subtracts line 13 from line 5 and enters the result, $11,900.

Lines 15 and 16. The property Mark sold was not his home. He carries the amount on line 14 to line 16. This is his gross profit on the sale.

Line 17. Mark subtracts line 13 from line 6. The result, $3,700, is the amount by which the assumed loan is more than his installment sale basis in the property. This amount is treated as a payment in the year of sale on line 20.

Line 18. The contract price is the sum of all payments Mark will receive on the sale. This includes the down payment and all installment payments he will receive (line 7). It also includes the payment figured on line 17.

Part II. In this part, Mark figures his installment sale income. For 2008, his installment sale income is composed of two parts.

- Any ordinary income from the recapture of depreciation.
- Any gain remaining after subtracting that ordinary income from the installment sale income.

Line 19. Mark's gross profit percentage is 100%. This is the gross profit on line 16, $11,900, divided by the contract price on line 18, also $11,900.

Line 20. Mark carries the amount he treats as a payment on line 17 ($3,700) to this line and it is added to the other payments he received in the year of sale.

Line 21. At the time of the sale, Mark received a down payment of $1,000. In December 2008, he received his first monthly installment payment. The total payment was $242, consisting of $42 interest (one month's interest on $7,200 figured at 7% a year) and $200 principal. This is the only installment payment he received in 2008. He enters the total received during 2008, $1,200 ($1,000 + $200), on this line. He reports the $42 interest on Form 1040.

Line 22. Mark enters $4,900, the sum of line 20 and line 21. This is the total of all payments he is considered to have received in 2008.

Line 23. 2008 is the year of sale, so Mark makes no entry here.

Line 24. The gross profit percentage (line 19) is 100%. Therefore, the entire amount on line 22, $4,900, is installment sale income. Mark enters this amount on line 24.

Lines 25 and 26. The lot Mark sold was not depreciable property, so he does not have to recapture any depreciation deductions as ordinary gain. All of the installment sale income is long-term capital gain. He enters zero (-0-) on line 25. He carries the amount on line 26 to Schedule D (Form 1040) where it is included with other long-term capital gains.

Part III. Mark sold the lot to his corporation, a related person, so he must fill out this part. The property he sold was not a marketable security and he completes this part for 2008, 2009, and 2010.

Line 27. Mark enters the name, address, and employer identification number of the corporation that bought the lot.

Line 28. The corporation did not sell the lot in 2008. Mark checks the *No* box and he does not have to fill out the rest of Part III.

Example 2

In December 2007, Cora Blue sold a painting she inherited in 1995. The buyer paid her $700 down and gave her an installment note for $3,800. The note calls for quarterly payments of $530 until the $3,800 debt is paid off. Each $530 payment includes interest figured at 10% a year on the outstanding debt. She received her first 4 payments on the note in 2008. The principal and interest she received in each payment is given in the table below:

Payment	Interest	Principal
First	$ 95.00	$ 435.00
Second	84.13	445.87
Third	72.98	457.02
Fourth	61.55	468.45
	$313.66	$1,806.34

Cora rounds off cents on her tax return. She reports $314 interest as ordinary income on Form 1040, line 8a. She completes Form 6252 as follows:

Line 1. Cora states the property she sold was an oil painting.

Lines 2a and 2b. She enters the date she acquired the painting and the date she sold it.

Line 3. The buyer was not related to Cora. She checks the *No* box.

Line 4. She checked *No* to question 3, so Cora does not have to answer this question or fill out Part III of the form.

Part I. Cora completed Part I of her Form 6252 for the year of sale, 2007. She does not fill it out for the remaining years of the installment sale.

Part II. This is the only part of Form 6252 that Cora fills out.

Line 19. Cora figured a gross profit percentage of 22.7% on her 2007 Form 6252. She uses the same percentage on her 2008 Form 6252.

Line 20. This is not the year of sale, so Cora enters zero on this line.

Line 21. Cora enters the total amount (minus interest) that she received on the sale in 2008, $1,806.

Line 22. The amount on line 21 carries over to line 22.

Line 23. Before 2008, Cora received only the $700 down payment.

Line 24. Cora multiplies the gross profit percentage of 22.7% (line 19), by the amount she was paid in 2008 (line 22), $1,806. The result, $410, is her installment sale income for 2008.

Lines 25 and 26. Cora did not use the painting in a business. It was not depreciable and the recapture rules do not apply. She enters zero (-0-) on line 25. The amount on line 24 carries over to line 26. Her gain is long-term capital gain. She carries the amount on line 26 to Schedule D (Form 1040), where it is included with other long-term capital gains.

Form **6252**

Department of the Treasury
Internal Revenue Service

Installment Sale Income

► **Attach to your tax return.**
► **Use a separate form for each sale or other disposition of property on the installment method.**

OMB No. 1545-0228
2008
Attachment Sequence No. **79**

Name(s) shown on return: Mark Moore
Identifying number: 222-00-3333

1 Description of property ► Undeveloped land
2a Date acquired (month, day, year) ► 2 / 17 / 97 **b** Date sold (month, day, year) ► 11 / 1 / 08
3 Was the property sold to a related party (see instructions) after May 14, 1980? If "No," skip line 4 . . . . ☑ Yes ☐ No
4 Was the property you sold to a related party a marketable security? If "Yes," complete Part III. If "No," complete Part III for the year of sale and the 2 years after the year of sale . . . . ☐ Yes ☑ No

Part I **Gross Profit and Contract Price.** Complete this part for the year of sale only.

5	Selling price including mortgages and other debts. **Do not** include interest whether stated or unstated		14,700
6	Mortgages, debts, and other liabilities the buyer assumed or took the property subject to (see instructions)	6,500	
7	Subtract line 6 from line 5	8,200	
8	Cost or other basis of property sold	2,650	
9	Depreciation allowed or allowable	-0-	
10	Adjusted basis. Subtract line 9 from line 8	2,650	
11	Commissions and other expenses of sale	150	
12	Income recapture from Form 4797, Part III (see instructions)	-0-	
13	Add lines 10, 11, and 12		2,800
14	Subtract line 13 from line 5. If zero or less, **do not** complete the rest of this form (see instructions)		11,900
15	If the property described on line 1 above was your main home, enter the amount of your excluded gain (see instructions). Otherwise, enter -0-		-0-
16	**Gross profit.** Subtract line 15 from line 14		11,900
17	Subtract line 13 from line 6. If zero or less, enter -0-		3,700
18	**Contract price.** Add line 7 and line 17		11,900

Part II **Installment Sale Income.** Complete this part for the year of sale **and** any year you receive a payment or have certain debts you must treat as a payment on installment obligations.

19	Gross profit percentage (expressed as a decimal amount). Divide line 16 by line 18. For years after the year of sale, see instructions		100%
20	If this is the year of sale, enter the amount from line 17. Otherwise, enter -0-		3,700
21	Payments received during year (see instructions). **Do not** include interest, whether stated or unstated		1,200
22	Add lines 20 and 21		4,900
23	Payments received in prior years (see instructions). **Do not** include interest, whether stated or unstated		
24	**Installment sale income.** Multiply line 22 by line 19		4,900
25	Enter the part of line 24 that is ordinary income under the recapture rules (see instructions)		-0-
26	Subtract line 25 from line 24. Enter here and on Schedule D or Form 4797 (see instructions)		4,900

Part III **Related Party Installment Sale Income. Do not** complete if you received the final payment this tax year.

27 Name, address, and taxpayer identifying number of related party Acme Design W. Main Street Small Town, NY 12899 10-7654321
28 Did the related party resell or dispose of the property ("second disposition") during this tax year? . . . . ☐ Yes ☑ No
29 **If the answer to question 28 is "Yes," complete lines 30 through 37 below unless one of the following conditions is met. Check the box that applies.**
a ☐ The second disposition was more than 2 years after the first disposition (other than dispositions of marketable securities). If this box is checked, enter the date of disposition (month, day, year) ► / /
b ☐ The first disposition was a sale or exchange of stock to the issuing corporation.
c ☐ The second disposition was an involuntary conversion and the threat of conversion occurred after the first disposition.
d ☐ The second disposition occurred after the death of the original seller or buyer.
e ☐ It can be established to the satisfaction of the Internal Revenue Service that tax avoidance was not a principal purpose for either of the dispositions. If this box is checked, attach an explanation (see instructions).

30	Selling price of property sold by related party (see instructions)	
31	Enter contract price from line 18 for year of first sale	
32	Enter the **smaller** of line 30 or line 31	
33	Total payments received by the end of your 2008 tax year (see instructions)	
34	Subtract line 33 from line 32. If zero or less, enter -0-	
35	Multiply line 34 by the gross profit percentage on line 19 for year of first sale	
36	Enter the part of line 35 that is ordinary income under the recapture rules (see instructions)	
37	Subtract line 36 from line 35. Enter here and on Schedule D or Form 4797 (see instructions)	

For Paperwork Reduction Act Notice, see page 4. Cat. No. 13601R Form **6252** (2008)

Form **6252**

Department of the Treasury
Internal Revenue Service

Installment Sale Income

► **Attach to your tax return.**
► **Use a separate form for each sale or other disposition of property on the installment method.**

OMB No. 1545-0228

2008

Attachment Sequence No. **79**

Name(s) shown on return: Cora Blue | **Identifying number**: 095-00-0000

1 Description of property ► Oil painting -- Inheritance

2a Date acquired (month, day, year) ► 7 / 3 / 95 **b** Date sold (month, day, year) ► 12 / 11 / 07

3 Was the property sold to a related party (see instructions) after May 14, 1980? If "No," skip line 4 . . . . ☐ Yes ☑ No

4 Was the property you sold to a related party a marketable security? If "Yes," complete Part III. If "No," complete Part III for the year of sale and the 2 years after the year of sale . . . ☐ Yes ☐ No

Part I Gross Profit and Contract Price. Complete this part for the year of sale only.

5	Selling price including mortgages and other debts. **Do not** include interest whether stated or unstated		5
6	Mortgages, debts, and other liabilities the buyer assumed or took the property subject to (see instructions)	6	
7	Subtract line 6 from line 5	7	
8	Cost or other basis of property sold	8	
9	Depreciation allowed or allowable	9	
10	Adjusted basis. Subtract line 9 from line 8	10	
11	Commissions and other expenses of sale	11	
12	Income recapture from Form 4797, Part III (see instructions)	12	
13	Add lines 10, 11, and 12		13
14	Subtract line 13 from line 5. If zero or less, **do not** complete the rest of this form (see instructions)		14
15	If the property described on line 1 above was your main home, enter the amount of your excluded gain (see instructions). Otherwise, enter -0-		15
16	**Gross profit.** Subtract line 15 from line 14		16
17	Subtract line 13 from line 6. If zero or less, enter -0-		17
18	**Contract price.** Add line 7 and line 17		18

Part II Installment Sale Income. Complete this part for the year of sale **and** any year you receive a payment or have certain debts you must treat as a payment on installment obligations.

19	Gross profit percentage (expressed as a decimal amount). Divide line 16 by line 18. For years after the year of sale, see instructions		19 .227
20	If this is the year of sale, enter the amount from line 17. Otherwise, enter -0-		20 -0-
21	Payments received during year (see instructions). **Do not** include interest, whether stated or unstated		21 1,806
22	Add lines 20 and 21		22 1,806
23	Payments received in prior years (see instructions). **Do not** include interest, whether stated or unstated	23 700	
24	**Installment sale income.** Multiply line 22 by line 19		24 410
25	Enter the part of line 24 that is ordinary income under the recapture rules (see instructions)		25 -0-
26	Subtract line 25 from line 24. Enter here and on Schedule D or Form 4797 (see instructions)		26 410

Part III Related Party Installment Sale Income. Do not complete if you received the final payment this tax year.

27 Name, address, and taxpayer identifying number of related party

28 Did the related party resell or dispose of the property ("second disposition") during this tax year? . . . . ☐ Yes ☐ No

29 **If the answer to question 28 is "Yes," complete lines 30 through 37 below unless one of the following conditions is met. Check the box that applies.**

- **a** ☐ The second disposition was more than 2 years after the first disposition (other than dispositions of marketable securities). If this box is checked, enter the date of disposition (month, day, year) ► / /
- **b** ☐ The first disposition was a sale or exchange of stock to the issuing corporation.
- **c** ☐ The second disposition was an involuntary conversion and the threat of conversion occurred after the first disposition.
- **d** ☐ The second disposition occurred after the death of the original seller or buyer.
- **e** ☐ It can be established to the satisfaction of the Internal Revenue Service that tax avoidance was not a principal purpose for either of the dispositions. If this box is checked, attach an explanation (see instructions).

30	Selling price of property sold by related party (see instructions)	30
31	Enter contract price from line 18 for year of first sale	31
32	Enter the **smaller** of line 30 or line 31	32
33	Total payments received by the end of your 2008 tax year (see instructions)	33
34	Subtract line 33 from line 32. If zero or less, enter -0-	34
35	Multiply line 34 by the gross profit percentage on line 19 for year of first sale	35
36	Enter the part of line 35 that is ordinary income under the recapture rules (see instructions)	36
37	Subtract line 36 from line 35. Enter here and on Schedule D or Form 4797 (see instructions)	37

For Paperwork Reduction Act Notice, see page 4. Cat. No. 13601R Form **6252** (2008)

How To Get Tax Help

You can get help with unresolved tax issues, order free publications and forms, ask tax questions, and get information from the IRS in several ways. By selecting the method that is best for you, you will have quick and easy access to tax help.

Contacting your Taxpayer Advocate. The Taxpayer Advocate Service (TAS) is an independent organization within the IRS whose employees assist taxpayers who are experiencing economic harm, who are seeking help in resolving tax problems that have not been resolved through normal channels, or who believe that an IRS system or procedure is not working as it should.

You can contact the TAS by calling the TAS toll-free case intake line at 1-877-777-4778 or TTY/TDD 1-800-829-4059 to see if you are eligible for assistance. You can also call or write your local taxpayer advocate, whose phone number and address are listed in your local telephone directory and in Publication 1546, Taxpayer Advocate Service—Your Voice at the IRS. You can file Form 911, Request for Taxpayer Advocate Service Assistance (And Application for Taxpayer Assistance Order), or ask an IRS employee to complete it on your behalf. For more information, go to www.irs.gov/advocate.

Low Income Taxpayer Clinics (LITCs). LITCs are independent organizations that provide low income taxpayers with representation in federal tax controversies with the IRS for free or for a nominal charge. The clinics also provide tax education and outreach for taxpayers who speak English as a second language. Publication 4134, Low Income Taxpayer Clinic List, provides information on clinics in your area. It is available at www.irs.gov or your local IRS office.

Free tax services. To find out what services are available, get Publication 910, IRS Guide to Free Tax Services. It contains lists of free tax information sources, including publications, services, and free tax education and assistance programs. It also has an index of over 100 TeleTax topics (recorded tax information) you can listen to on your telephone.

Accessible versions of IRS published products are available on request in a variety of alternative formats for people with disabilities.

Free help with your return. Free help in preparing your return is available nationwide from IRS-trained volunteers. The Volunteer Income Tax Assistance (VITA) program is designed to help low-income taxpayers and the Tax Counseling for the Elderly (TCE) program is designed to assist taxpayers age 60 and older with their tax returns. Many VITA sites offer free electronic filing and all volunteers will let you know about credits and deductions you may be entitled to claim. To find the nearest Vita or TCE site, call 1-800-829-1040.

As part of the TCE program, AARP offers the Tax-Aide counseling program. To find the nearest AARP Tax-Aide site, call 1-888-227-7669 or visit AARP's website at www.aarp.org/money/taxaide.

For more information on these programs, go to www.irs.gov and enter keyword "VITA" in the upper right-hand corner.

Internet. You can access the IRS website at www.irs.gov 24 hours a day, 7 days a week to:

- *E-file* your return. Find out about commercial tax preparation and *e-file* services available free to eligible taxpayers.
- Check the status of your 2008 refund. Go to www.irs.gov and click on *Where's My Refund*. Wait at least 72 hours after the IRS acknowledges receipt of your e-filed return, or 3 to 4 weeks after mailing a paper return. If you filed Form 8379 with your return, wait 14 weeks (11 weeks if you filed electronically). Have your 2008 tax return available so you can provide your social security number, your filing status, and the exact whole dollar amount of your refund.
- Download forms, instructions, and publications.
- Order IRS products online.
- Research your tax questions online.
- Search publications online by topic or keyword.
- View Internal Revenue Bulletins (IRBs) published in the last few years.
- Figure your withholding allowances using the withholding calculator online at www.irs.gov/individuals.
- Determine if Form 6251 must be filed by using our Alternative Minimum Tax (AMT) Assistant.
- Sign up to receive local and national tax news by email.
- Get information on starting and operating a small business.

Phone. Many services are available by phone.

- *Ordering forms, instructions, and publications.* Call 1-800-829-3676 to order current-year forms, instructions, and publications, and prior-year forms and instructions. You should receive your order within 10 days.
- *Asking tax questions.* Call the IRS with your tax questions at 1-800-829-1040.
- *Solving problems.* You can get face-to-face help solving tax problems every business day in IRS Taxpayer Assistance Centers. An employee can explain IRS letters, request adjustments to your account, or help you set up a payment plan. Call your local Taxpayer Assistance Center for an appointment. To find the number, go to www.irs.gov/localcontacts or look in the phone book under *United States Government, Internal Revenue Service*.
- *TTY/TDD equipment.* If you have access to TTY/TDD equipment, call 1-800-829-4059 to ask tax questions or to order forms and publications.
- *TeleTax topics.* Call 1-800-829-4477 to listen to pre-recorded messages covering various tax topics.
- *Refund information.* To check the status of your 2008 refund, call 1-800-829-1954 during business hours or 1-800-829-4477 (automated refund information 24 hours a day, 7 days a week). Wait at least 72 hours after the IRS acknowledges receipt of your e-filed return, or 3 to 4 weeks after mailing a paper return. If you filed Form 8379 with your return, wait 14 weeks (11 weeks if you filed electronically). Have your 2008 tax return available so you can provide your social security number, your filing status, and the exact whole dollar amount of your refund. Refunds are sent out weekly on Fridays. If you check the status of your refund and are not given the date it will be issued, please wait until the next week before checking back.
- *Other refund information.* To check the status of a prior year refund or amended return refund, call 1-800-829-1954.

Evaluating the quality of our telephone services. To ensure IRS representatives give accurate, courteous, and professional answers, we use several methods to evaluate the quality of our telephone services. One method is for a second IRS representative to listen in on or record random telephone calls. Another is to ask some callers to complete a short survey at the end of the call.

Walk-in. Many products and services are available on a walk-in basis.

- *Products.* You can walk in to many post offices, libraries, and IRS offices to pick up certain forms, instructions, and publications. Some IRS offices, libraries, grocery stores, copy centers, city and county government offices, credit unions, and office supply stores have a collection of products available to print from a CD or photocopy from reproducible proofs. Also, some IRS offices and libraries have the Internal Revenue Code, regulations, Internal Revenue Bulletins, and Cumulative Bulletins available for research purposes.
- *Services.* You can walk in to your local Taxpayer Assistance Center every business day for personal, face-to-face tax help. An employee can explain IRS letters, request adjustments to your tax account, or help you set up a payment plan. If you need to resolve a tax problem, have questions about how the tax law applies to your individual tax return, or you are more comfortable talking with someone in person, visit your local Taxpayer Assistance Center where you can spread out your records and talk with an IRS representative face-to-face. No appointment is necessary—just walk in. If you prefer, you can call your local Center and leave a message requesting an appointment to resolve a tax account issue. A representative will call you back within 2 business days to schedule an in-person appointment at your convenience. If you have an ongoing, complex tax account problem or a special need, such as a disability, an appointment can be requested. All other issues will be handled without an appointment. To find the number of your local office, go to www.irs.gov/localcontacts or look in the phone book under *United States Government, Internal Revenue Service*.

Mail. You can send your order for forms, instructions, and publications to the address below. You should receive a response within 10 days after your request is received.

Internal Revenue Service
1201 N. Mitsubishi Motorway
Bloomington, IL 61705-6613

DVD for tax products. You can order Publication 1796, IRS Tax Products DVD, and obtain:

- Current-year forms, instructions, and publications.
- Prior-year forms, instructions, and publications.
- Tax Map: an electronic research tool and finding aid.
- Tax law frequently asked questions.
- Tax Topics from the IRS telephone response system.
- Internal Revenue Code—Title 26 of the U.S. Code.
- Fill-in, print, and save features for most tax forms.
- Internal Revenue Bulletins.
- Toll-free and email technical support.
- The DVD is released twice during the year.
  – The first release will ship the beginning of January 2009.
  – The final release will ship the beginning of March 2009.

Purchase the DVD from National Technical Information Service (NTIS) at *www.irs.gov/cdorders* for $30 (no handling fee) or call 1-877-233-6767 toll free to purchase the DVD for $30 (plus a $6 handling fee). The price is discounted to $25 for orders placed prior to December 1, 2008.

Small Business Resource Guide 2009. This online guide is a must for every small business owner or any taxpayer about to start a business. This year's guide includes:

- Helpful information, such as how to prepare a business plan, find financing for your business, and much more.
- All the business tax forms, instructions, and publications needed to successfully manage a business.
- Tax law changes for 2009.
- Tax Map: an electronic research tool and finding aid.
- Web links to various government agencies, business associations, and IRS organizations.
- "Rate the Product" survey—your opportunity to suggest changes for future editions.
- A site map of the guide to help you navigate the pages with ease.
- An interactive "Teens in Biz" module that gives practical tips for teens about starting their own business, creating a business plan, and filing taxes.

The information is updated during the year. Visit *www.irs.gov* and enter keyword "SBRG" in the upper right-hand corner for more information.

Index

To help us develop a more useful index, please let us know if you have ideas for index entries. See "Comments and Suggestions" in the "Introduction" for the ways you can reach us.

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