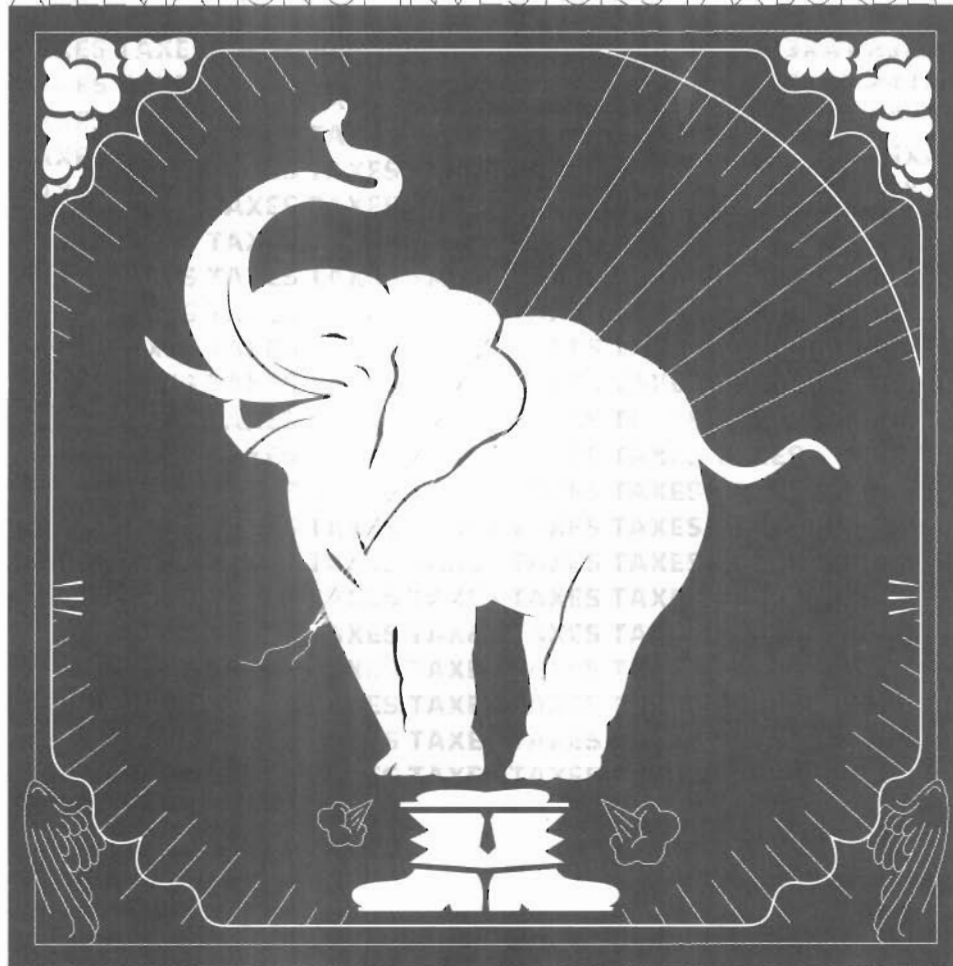


EASE CAPITAL GAINS WITH “STRUCTURED SALE” CONCEPT

• By Leela Rao and Rick Halperin

• ALLEVIATION OF INVESTOR'S TAX BURDEN •



payments to claimants in personal physical injury cases were free of federal taxation as long as certain conditions were met. This precedent made the concept of periodic payments in such instances quite popular, as opposed to the previous common practice supporting lump sum payments.

“A structured sale refers to selling an asset today and receiving a stream of payments over a chosen time period”.

These two IRS codes form the legal basis for structured sales, as long as investors adhere to certain rules established in the installment agreement tax codes. For instance, the installment payments need to remain constant, the interest rate must stay the same, and the original obligator must remain obligated under the note.

• DISCOURAGEMENT OF CAPITAL GAINS TAXES •

▶ WHEN INVESTORS CONSIDER selling a large possession, such as a vacation home or valuable collectibles, they often face the discouragement of capital gains taxes. Of course, purchasing a replacement property offers a solution for some investors, but not all.

Purchasing a new property is not always an option, said Leela Rao, managing director of Appreciated Asset Advisors. “We have encountered instances when a client did not want to do a 1031 exchange but sought out an alternative tax deferral structure,” she said. “In these instances, the concept of a ‘structured sale’ provided an additional option.”

A structured sale refers to selling an asset today and receiving a stream of payments over a chosen time period. Two big insurers, Allstate Corporation and

Prudential Financial Inc., back these fixed annuities, which allow flexibility in how funds are paid. This alleviates the investor's immediate tax burden, as he or she can pay taxes over a period of time instead of all at once. The combination of deferred tax burden as well as a steady stream of income appeals to many investors.

While the term “structured sale” has just emerged recently, this concept stems from two long-standing IRS codes: installment sales and structured settlements. Under the terms of an installment sale, section 453 of the IRS code allows a taxpayer to arrange sale of a property and collect the proceeds over several years, paying taxes as the proceeds are received.

The second part of the IRS code, created in the 1970s and referred to as structured settlement, confirmed that periodic

Of course, a legal or tax professional should be able to offer details on the intricacies of these tax codes. With those guidelines in mind, structured sales can provide great economic benefit for investors who wish to sell a highly appreciated personal residence, vacation home, investment property or commercial real estate, without needing to find a replacement property.//

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