

**An Overview:
“C453” FOR THE SALE OF CAPITAL ASSETS**

S.Crow Collateral Corp. is pleased to present this overview of how a “collateralized installment sale” or “C453” transaction works: how the transaction is carried out, and how it will affect you.

In a “C453” transaction—so named in reference to *Internal Revenue Code* Section 453, the installment-reporting section—S.Crow Collateral Corp. purchases the capital asset (real estate, partnership or other ownership interest, or whatever else) from you. S.Crow Collateral Corp. simultaneously re-sells that asset to the final buyer, on the same price and terms on which you would have done so. S.Crow Collateral Corp. is the legal seller of the asset to the final buyer, but the instrument of transfer (deed, assignment, whatever) passes directly from you to the final buyer. (Please continue reading on the next page.)

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Informally Collateralized

At the closing, S.Crow Collateral Corp. executes an installment contract to purchase the asset from you, with no money down and interest-only monthly payments over an agreed period of time (typically 30 years), followed by a final lump-sum payment at the end. Under Section 453, an installment contract such as that permits you to defer paying the tax on the gain until you receive the principal, at the end of the contract term. We call the installment transaction a “collateralized installment sale” transaction, but our obligation to you is not actually collateralized in the legal sense of that word; we do not give you any security whatever for what we owe to you.

The installment debt to you can be informally collateralized, however, because we will introduce to you a lender which is willing to lend to you (as to all of our sellers) an amount that is equal to an agreed high percentage of the amount that S.Crow Collateral Corp. receives from the final buyer when we resell the asset to the final buyer. Our installment purchase price from you will generally match the loan amount. It is not a requirement that you accept the loan, however; you are free to choose instead to rely on S.Crow Collateral Corp.'s unsecured promise to pay the installment price and interest.

Automatic Payment Debiting and Crediting

The loan agreement between you and the lender will assure you that in no circumstance will the lender seek to compel you to pay any amount as interest or principal on the loan beyond what S.Crow Collateral Corp. pays to you on the installment debt to you. The installment contract is not pledged to the lender, and the lender has no rights in the installment contract. Instead, the lender requires that you agree to automatic payment debiting and crediting, so that every time that S.Crow Collateral Corp. makes a payment to you on the installment debt, you will automatically pay the same amount to the lender as a loan payment. All you have to do is to agree to that arrangement and leave it in place.

For the Loan: Any Business or Investment Purpose

The only restriction on your use of the loan proceeds is that you must use the money to purchase an investment of your choice or to pay business debt. You are not required to retain the investment for any specified time period.

1099s; Tax at the End, from the Earnings on the Tax Money

If you accept the loan, the interest payments and final payment on the installment contract will exactly match those on the loan; you will have no net cash flow from the installment contract. Each year the payment processor will send two 1099s to you, one showing the interest payments which you received on the installment contract, and one showing the (same) amounts which you paid as interest on the loan. Where you will make your money will be in whatever investment you purchase with the loan proceeds.

At the end of the term of the installment contract, the capital-gains tax will then be due, at whatever the rate is at that time for capital gains. We don't know what that rate will be. (The rate has gone up three times and down three times in recent decades.) Whatever the rate turns out to be, you or your estate should have far more money to pay whatever that tax amount is than you would have to pay the tax now, because of the effects of (1) investing the tax money in the meantime and (2) inflation during the contract term. (See our publication, “C453 and the Economics of Tax Deferral”.)

Disclaimer

As a principal only, S.Crow Collateral Corp. does not act in the capacity of a broker, sales representative, investment adviser, or tax or legal adviser, does not sell or recommend any security; and does not accept any transaction fee or payment for transaction services. Circumstances may affect tax and legal outcomes. Each transaction is different and unique to each participant. Neither S.Crow Collateral Corp. nor any of its officers or employees may or does provide tax, legal or investment advice. Nothing herein is intended to be, or may be taken to be, tax, legal or investment advice. Interested parties should consult their legal, tax and investment advisers before participating in any transaction.

**C453:
flexibility
to fit
your
particular
circumstances.**

