



Tax- and Transaction-Related News and Commentary from S.Crow Collateral Corp.

With All That a Collateralized Installment Sale Does, Is It Ever a Bridge to Nowhere?

Dear Dealburt: As a successful and experienced builder of roads and bridges, I'm thinking of trying to win a contract to build a privately operated toll bridge to an island just off the coast of Alaska. With the help of a senator with political influence, I expect there to be an earmark in some stimulus bill that will cause the federal government to put up most of the cost of construction. My contract will then give me a monopoly, and I should be able to sell the contract for a huge profit and go into politics myself. Should I arrange to sell my contract rights with a collateralized installment sale?—Highway Bobbery

Dear Mr. Bobbery: No! The first reason is that I don't want to traffic with a rapscallion such as you. The broader principle, though, is that, as good as a collateralized installment sale (C453) is, there are some circumstances when it's not the right route to take. It's a good practice to ask anyone who promotes something,

"What are your program's limitations and disadvantages?" Here are some instances in which a C453 may not be the best way to go, if taxes are your only concern: (1) If you want to defer your tax for only a year or two, the deferral isn't worth it, and you should sell for cash (if you have a buyer who can pay the price you want), and pay the tax; (2) if you face a large capital gain on sale but you are about to die and have a small estate overall, then don't sell until after you die, to get a step-up in basis on death (but take note: under present law the step-up in basis will be severely limited beginning next year); (3) what you have to sell is inventory (that doesn't qualify for tax deferral under Section 453); (4) you are a dealer in whatever it is that you want to sell (that won't qualify, either); and (5) you want to give what to have to charity anyway. (Note to attorneys and CPAs: There's a good reason why non-farm business sales over \$5 million are not in my list of limitations. Trust me on this.) However, in this market, you may want a C453 sale even if you don't face much of a tax problem, because of what a C453 can do to help you sell, help you get the price you want, and help your buyer get financing.—Dealburt



Dealburt always recommends against driving on bridges to nowhere. If that's where a C453 would lead, he says, don't go there.

Collateralized Installment Sales

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