

BUSINESS PLANNING

Installment Sale for Business Succession

CONCEPT APPLIED:

An installment sale lets a business owner sell a business interest while deferring capital gains taxes. Life insurance can protect against the buyer's premature death.

HOW IT WORKS:

The buyer and seller negotiate the terms of the sale, including the length of time payments will be made, the frequency of payments, and the yearly interest rate. The IRS requires the use of the applicable federal rate (AFR) as a minimum interest rate. Interest paid is deductible to the buyer and is taxed as ordinary income to the seller.

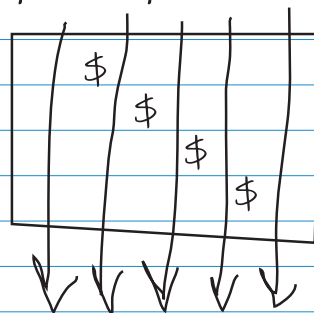
WHY IS IT USEFUL?

An installment sale allows the seller to spread out payment of taxes. Rather than paying the full amount when the sale is made, the tax is paid only as each payment is received.

50 WORDS OR LESS

With an installment sale, the owner agrees to accept a series of payments over time. This is an important financing tool for buyers without enough cash for an outright purchase. Instead of paying tax on the full purchase price, the seller only pays taxes on smaller annual installment payments.

BUYER PAYS OVER TIME



BUSINESS OWNER



[DEATH BENEFIT]

→ Life
insurance
policy on
BUYER

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While the primary use of life insurance is death benefit protection, you may also have other needs that can be met through life insurance. Please note that Midland National does not require its agents to use any of these sales concepts.

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