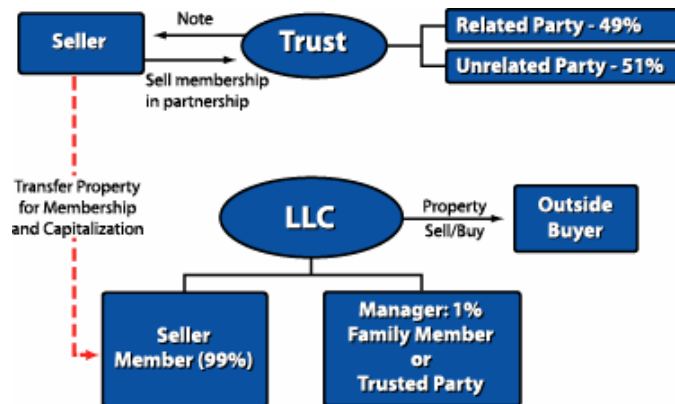


## Sell Real Estate Tax Deferred – Retire With Lifetime Income

By Scott Janko

SDIS<sup>SM</sup> stands for: Self Directed Installment Sale. Superior to a 1031 property exchange, the SDIS<sup>SM</sup> is a specially designed, long term, capital gains deferred installment sale of your appreciated property. You retain substantial control over the installment sale process, which is the reason the sale is referred to as “self directed”. But the SDIS<sup>SM</sup> eliminates the pitfalls and risks of a regular installment sale (see topic below). The SDIS<sup>SM</sup> insures that an outside buyer pays cash into the SDIS<sup>SM</sup>, which in turn insures that capital is available and secure to pay you installment sale payments for the appreciated property.



Capital gains taxes are deferred or spread out over the term of the installment sale and paid only as you receive the payments. This deferral of the capital gains taxes results in a substantially better return, vs. simply making a cash sale and paying all the taxes upfront.

Once implemented, the SDIS<sup>SM</sup> pays you installment payments for the full value of your property. This means you receive a full return of principal, with interest, on a capital gains tax deferred basis. The payments are spread out over some time period which has been determined by you. This may easily be as much as ten, twenty or more years.

### Other Benefits of the SDIS<sup>SM</sup>

- Long term deferral of both capital gains and straight line depreciation
- Exit strategy from real estate without necessity of 1031 exchange
- Excess income is very likely, and is paid to seller's heirs
- End-to-end control over the set up by the seller
- Trusted, dependable party acts as installment buyer
- Wide choice of safe investments for the cash proceeds
- Flexibility in selecting the term of the payments and the life cycle
- Opportunity to request early pay-off

## **Why SDIS<sup>SM</sup> vs. A Regular Installment Sale?**

The SDIS<sup>SM</sup> eliminates the risks from a regular installment sale, and places you, your family and/or other trusted people in control of the transaction and payments. This enables you to receive the benefits of capital gains and depreciation recapture tax deferral while maintaining peace of mind and avoiding risks from the buyer.

A regular installment sale represents problems and risks for the seller which the SDIS<sup>SM</sup> avoids:

- Sometimes the installment sale buyer will default on the note, leaving the seller stuck with a repossession headache and getting property back which the seller doesn't want. In many cases the repossessed property will be damaged or run down by the buyer, creating a loss to the seller. SDIS<sup>SM</sup> property is typically sold for cash, eliminating this problem entirely.
- Sometimes an installment sale buyer pays off the installment note early, forcing early and full recognition of the balance of the capital gains which the seller thought he had deferred. This won't happen with an SDIS<sup>SM</sup>.
- It can be difficult to locate a buyer who will agree to an installment sale, and difficult to negotiate the terms if you do. The SDIS<sup>SM</sup> acts as an intermediary between you and the buyer, so that a straightforward cash sale can be made to the buyer, and then a straightforward installment sale agreement can be entered into with you, the seller. This is a no-hassle arrangement.
- A regular installment sale buyer may not properly respect the payment obligation to you, and may not service the debt promptly or honestly.

### **Basic Rules**

- There cannot be a pre-existing buy-sell agreement before doing an SDIS<sup>SM</sup>
- The seller cannot have entered into escrow in a pre-existing agreement
- The outside cash buyer must be an independent party
- The seller cannot have direct access to or ownership of the SDIS<sup>SM</sup> investments

### **What Kinds of Assets Are Suitable For the SDIS<sup>SM</sup>**

- Appreciated real estate
- Straight line depreciation on real estate
- Partnership, C-Corp and S-Corp interests (shares or stock)
- Proprietorship assets

### **What Kinds of Assets Are *Not* Suitable For the SDIS<sup>SM</sup>**

- Section 1245 property (personal property)

- Accelerated depreciation recapture from property put in service pre-1986
- Publicly traded stock

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