



# DOLINKA, VANNOORD & COMPANY

A PROFESSIONAL LIMITED LIABILITY PARTNERSHIP

C e r t i f i e d P u b l i c A c c o u n t a n t s

## **Seller Financing of Business Sale Installment Sale Basics**

1. Seller Entity Type
  - a. C Corp
    - i. Flat Rate 21% Federal, 6% State. No lower capital gain rate.
    - ii. Liquidating Dividend To Shareholders Taxed Personally.
    - iii. History of C Corp Status in the Past
      1. 5 year Built In Gains (BIG) Tax.
      2. Portion of Liquidating Dividend Taxable
  - b. S Corp
    - i. All Taxed on Shareholders 1040 for S Corp Portion of Activity.
  - c. Partnership
    - i. Same as S Corp
  - d. Sole Proprietor
    - i. Same as S Corp
2. Method of Accounting
  - a. Cash Basis
    - i. Realization of Ordinary Income Tax On Sale of Accounts Receivable
    - ii. Due in the Year of Sale
    - iii. Can offset with Trade Accounts Payable Assumed.
3. Determine Assets Sold and Their Respective Adjusted Basis
  - a. Asset by Asset
  - b. Adjusted Basis considers Depreciation/Amortization
  - c. Allocated Closing Costs to Each
4. Allocation of Selling Price
  - a. First to Assets Sold For A Loss
  - b. Second to Assets not Qualifying for Installment Treatment
    - i. Inventory
    - ii. Cash Basis Seller AR and AP (net)
    - iii. Certain Other Assets (rarely seen)
    - iv. Sales to Related Party Restrictions

- c. Assets Qualifying for Installment Treatment
- d. Other Intangible Assets
  - i. Trade Name, Customer Lists Etc.
  - ii. Non-Compete Agreements
  - iii. Goodwill
- 5. Depreciation Recapture
  - a. Ordinary Income In Year of Sale
  - b. Adds to Adjusted Basis
- 6. Determine Return of Basis vs. Capital Gain Percentage.
- 7. Apply Percentage to Principle Payments Each Year
- 8. Adjusted Selling Price Post Close
  - a. Recalculation of Capital Gain Percentage
  - b. Gain Recognized to date adds to Basis
- 9. Escrow Funds
  - a. Considered Payment At Closing If No Restrictions But Time.
  - b. Considered Payment once Restrictions/Conditions Lifted.
  - c. Repeat Step 8 If Any Portion Retained by Buyer.