

Because of this year's unforeseen economic slowdown, many businesses and individuals are unexpectedly looking for liquidity. One way to raise cash is to sell off real property such as land or a building. Finding a buyer may not be easy, but an installment sale might help.

An installment sale occurs when you transfer property in exchange for a promissory note and receive at least one payment after the tax year of the sale. Doing so allows you to receive interest on the full amount of the promissory note, commensurate with the installment payments received, often at a higher rate than you could earn from other investments — all while deferring taxes and improving cash flow.

An installment sale may appeal to buyers in today's environment because, rather than having to pay for the property all at once, they can pay in installments. After all, even people or entities in a position to buy may wish to carefully manage their cash flow. This does present a risk for you, the seller: A buyer may not make all payments, and you may have to deal with foreclosure.

You generally must report an installment sale on your tax return under the "installment method." Each installment payment typically consists of interest income, return of your adjusted basis in the property and gain on the sale. For each tax year in which you receive an installment payment, you must report as income the interest and gain components.

Calculating taxable gain involves multiplying the amount of payments received in the tax year, excluding interest, by the gross profit ratio for the sale. This isn't a simple calculation, so be sure to obtain professional assistance when reporting an installment sale to the IRS.

[We'd be happy](#) to help you decide whether one of these transactions is right for you and, if so, carry out and report the sale.