IRC §453 Structured Installment Sales

The one-page brief for the seller's CPA: the code, the cites, and why it isn't a shelter. Hans Goldstein, EA: Tax & Exit Planning · 213-414-2808 · goldsteinco.net/section-453-cpa-guide

What it is, in one sentence

A structured installment sale is an ordinary IRC §453 installment sale in which the buyer's deferred-payment obligation is assigned to a third-party assignment company that funds the seller's scheduled payments, typically through a fixed annuity it owns. No promoter holding funds, no discretionary investment of proceeds. §453 is the **default** method: the seller elects *out* under §453(d) to accelerate; there is nothing to elect *into*.

Funding, and the security rule to check

The assignment company funds the schedule with a fixed (or indexed) annuity from an NAIC-rated life carrier. It owns the annuity; the seller holds only the right to the scheduled payments. **Treasury-funded trust pitches:** Treas. Reg. §15a.453-1(b)(3)(i) treats receipt of a note "secured directly or indirectly by cash or a cash equivalent, such as a bank certificate of deposit or a treasury note" as payment. If Treasuries held in trust or escrow stand behind the seller's obligation, the deferred amount can be treated as paid in the year of sale. **Have the seller's tax counsel review any security, escrow, trust, or guarantee arrangement before closing.**

The authorities: everything you'd pull yourself

IRC §453(a),(c)	Installment method is the default; gain recognized as payments are received (gross-profit-ratio). Elect out under §453(d).
IRC §453(f)(4)	Obligation must not be payable on demand or a readily tradable cash-equivalent. A locked carrier annuity schedule is neither.
Treas. Reg. §15A.453-1	Operative regulation: (b) gross-profit-ratio mechanics; (b)(3)(i) note secured by cash or a cash equivalent = payment; (c) contingent payments; (e) demand/readily tradable obligations.
Rev. Rul. 75-457; 82-122	Substitution of obligor does not trigger §453B disposition. The principle relied on when assigning the buyer's duty to the carrier without accelerating gain.
Installment Sales Revision Act of 1980 (PL 96-471)	Enacted the modern §453 framework: a 45-year-old statute, not a rented private ruling.
IRC §453A	Interest charge on deferred tax when face outstanding at year-end exceeds $5,000,000; the §453A(d) pledge rule reaches sales over $150,000. Model it above $5M.
IRC §453(i); §453(g)	§1245 recapture is NOT deferrable (recognized in year of sale); §1250 varies. The most common benefit-shrinker on real estate.
IRS Pub. 537 / Form 6252	Reported line-by-line on Form 6252 every year payments arrive. Transparent on the return: the opposite of a hidden structure.

Why it isn't a shelter: the three tests you're actually applying

1. Economic substance / step-transaction. Real sale; buyer credit is genuinely swapped for rated-carrier credit. Rev. Rul. 75-457 and 82-122: substituting a new obligor is not a disposition. No circular flow back to the seller, no retained control, no pledge.

2. Business purpose beyond tax. The seller wants a fixed payment schedule set in the contract (funded by a rated insurer's annuity), and not the buyer's 10-30-year default risk; the buyer wants to pay cash and walk at closing. The structure delivers both. Deferral is a consequence of the statutory method, not an engineered entity's sole purpose.

3. Promoter / listed-transaction smell test. No promoter-controlled trust, no LLC, no discretionary trustee, no confidentiality agreement, no contingent promoter fee. Not a listed or reportable transaction; no Form 8886. Contrast a Deferred Sales Trust, which rests on a promoter-drafted trust that invests proceeds at discretion and has drawn repeated IRS scrutiny. A structured installment sale is an ordinary installment sale; a deferred sales trust is the thing pretending to be §453.

> *For your file: A structured installment sale is an IRC §453 installment sale (the Code's default method since 1980, in which the buyer's deferred obligation is assigned under the substitution-of-obligor principle of Rev. Rul. 75-457 and funded by a rated life-carrier annuity owned by the assignment company, reported annually on Form 6252.*

Reliance memo

The annuity provider will furnish a **reliance / tax-treatment memo** on letterhead, describing the assignment mechanics and §453 treatment of that product, for the seller's CPA to rely on and retain. Ask before the client signs the purchase-and-sale agreement. That memo + this brief + Form 6252 is your documentation file.

Documented case studies (Dan Finn's published illustrations, not Hans Goldstein's deals)

Jud & Amy (Dan Finn, *The CPA Journal*, Dec. 2021): $500,000 sale; ~$131,500 capital-gains tax if taken as a lump sum; structured $70,000/yr for 8 years ($560,000 total). Annual recognition effectively eliminated the lump-sum capital-gains tax, plus interest earned inside the structure.

Sandy & Andie (Dan Finn, *Realty Times*): residence bought 1993 for $600,000, no mortgage; ~$1,100,000 gain above the §121 exclusion. The full $1,700,000 funds a structured annuity paying $120,000/yr for 20 years; the couple earns ~$700,000 pre-tax interest on top of spreading the gain.

What I need to model the client's actual deal

Sale price and basis (plus prior depreciation if real estate) · state of residence at sale · target close date (30+ days) · whether deferred face exceeds $5M (§453A) · any related-party buyer (§453(e)). Send these and I'll run lump-sum vs. §453 side-by-side against the real terms.

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