

In general, if you receive payments from the buyer over time, you report the gain on the payments in the year you receive them, rather than reporting the entire gain in the year of the sale. Thus, each time you receive a principal payment on the debt, a pro rata portion of the gain will be subject to tax. You must use the installment method unless you elect out of it. However, be aware that:

- (1) The installment method is not available to the extent that the gain on the property sold is treated as the recapture of any depreciation that you have taken on real or personal property. Thus, that portion of the gain is recognized at the time of the sale even if you do not receive any cash at that time.
- (2) In order for the gain to be deferred, the buyer's debt cannot be payable on demand or readily tradeable on an established securities market. In addition, the debt cannot be secured directly or indirectly by cash or a cash equivalent, such as a certificate of deposit or a treasury note. However, the debt can be backed up by a third party guarantee or secured by a standby letter of credit.
- (3) The installment method cannot be used for sales of certain types of property, such as most sales of property by a dealer or sales of publicly traded property, such as stock or securities that are traded on an established securities market. Thus, the installment method is not available to the extent the gain includes gain on your inventory or gain on publicly traded property.
- (4) Once an installment sale is made, subject to certain exceptions such as a transfer to a spouse or a transfer at death, a transfer of the buyer's debt will result in the recognition of the deferred gain. Thus, the advantage of an installment sale is limited if you intend to transfer the note in the future.