Department of the Treasury

Internal Revenue Service

Publication 537

Cat. No. 15067V

Installment Sales

For use in preparing

1997 Returns

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Contents

Introduction 1

What Is an Installment Sale? 2

General Rules 2
- Figuring Installment Income 2
- Reporting Installment Income 3

Other Rules 3
- Electing Out of Installment Method 3
- Payments Received 4
- Escrow Account 5
- Depreciation Recapture Income 5
- Sale to Related Person 5
- Like-Kind Exchange 6
- Contingent Sale 6
- Single Sale of Several Assets 6
- Sale of a Business 7
- Unstated Interest 8
- Disposition of Installment Obligation 9
- Repossession 10

Reporting an Installment Sale 12

How To Get More Information 14

Index 18

Introduction

An installment sale is a sale of property where you receive at least one payment after the close of the tax year of the sale. If you dispose of property in an installment sale, you report part of your gain or profit when you receive each installment payment. You cannot use the installment method to report a loss.

This publication discusses the general rules that apply to all installment sales. It also discusses more complex rules that apply only when certain conditions exist or certain types of property are sold. There are several examples of reporting installment sales on Form 6252 at the end of the publication.

If you sold your home or other nonbusiness property under an installment plan, you will need to read only the *General Rules*. If you sold business or rental property or had a like-kind exchange or other complex situation, see the appropriate discussion under *Other Rules*.

If you sold your entire interest in a passive activity, special rules apply to the treatment of passive activity losses. Generally, you are in a passive activity if you have a trade or business activity in which you do not materially participate or have a rental activity. See Publication 925 for information on this topic.

Useful Items

You may want to see:

Publication

- ☐ **523** Selling Your Home
- ☐ **541** Partnerships
- ☐ **544** Sales and Other Dispositions of Assets
- ☐ **550** Investment Income and Expenses
- ☐ **551** Basis of Assets
- ☐ **925** Passive Activity and At-Risk Rules

Form (and Instructions)

☐ **6252** Installment Sale Income

See *How To Get More Information* near the end of this publication for information about getting these publications and the form.

What Is an Installment Sale?

An installment sale is a sale of property where you receive at least one payment after the close of the tax year of the sale. The installment sale rules do not apply to the sale of inventory. See *Sale of a Business* under *Other Rules.*

If a sale qualifies as an installment sale, you must report the gain on the sale under the installment method unless you elect to recognize gain under your regular method of accounting. Under the installment method, you report prorated gain on the sale only as payments are received. It does not matter whether you use the cash or accrual method of accounting. For information on recognizing the entire gain in the year of sale, see *Electing Out of Installment Method* under *Other Rules,* later.

If you finance the purchase of your property, instead of having the buyer get a loan or mortgage from a third party, you probably have an installment sale. It is not an installment sale if the buyer borrows the money from a third party and then pays you the total selling price.

General Rules

The buyer's "installment obligation" to make future payments to you can be in the form of a deed of trust, note, land contract, mortgage, or other evidence of the buyer's debt to you. The rules discussed in this publication apply regardless of the form of the installment obligation.

Stock or securities. If you use the cash method of accounting, you cannot use the installment method to report the year-end sale of stock or securities traded on an established securities market. You must report the sale in the year in which the trade date falls.

Dealer sales. Sales of personal property by a person who regularly sells or otherwise disposes of the same type of property on the installment plan cannot be reported under the installment method. This also applies to real property held for sale to customers in the ordinary course of a trade or business. However, this does not apply to an installment sale of property used or produced in farming.

Special rule. Dealers of timeshares and residential lots can report sales on the installment method if they elect to pay a special interest charge. For more information, see section 453(l) of the Internal Revenue Code.

Sale at a loss. If your sale results in a loss, you cannot use the installment method. If the loss is on an installment sale of business assets, you can deduct it only in the tax year of sale. You cannot deduct a loss on the sale of property owned for personal use.

Unstated interest. If your sale calls for payments in a later year and the sales contract provides for little or no interest, you may have to figure unstated interest, even if you have a loss. See *Unstated Interest,* later.

Figuring Installment Income

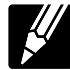
Each payment on an installment sale usually consists of three parts:

1) Interest income.
2) Return of your adjusted basis in the property.
3) Gain on the sale.

Each year you receive a payment, you must include the interest part in income, as well as the part that is your gain on the sale. You do not include in income the part that is the return of your basis in the property.

Interest income. You must report interest as ordinary income. Interest is generally not included in a down payment. However, you may have to treat part of each later payment as interest, even if it is not called interest in your agreement with the buyer. See *Unstated Interest,* later.

Return of basis and gain on sale. The rest of each payment is treated as if it were made up of two parts. One part is a tax-free return of your adjusted basis in the property. The other part is your gain.



Figuring gain part of payment. To figure what part of any payment is gain, multiply the payment (less interest) by the gross profit percentage. Use the following worksheet to figure the gross profit percentage.

1) Selling price		______
2) Installment sale basis:		
Adjusted basis of property	______	
Selling expenses	______	
Depreciation recapture	______	______
3) Gross profit (line 1 – line 2)		______
4) Contract price		______
5) Gross profit percentage (line 3 ÷ line 4)		______

Selling price. The selling price is the total cost of the property to the buyer. It includes any money and the fair market value of any property you are to receive. It also includes any debt the buyer pays, assumes, or takes the property subject to. The debt could be a note, mortgage, or any other liability, such as a lien, accrued interest, or taxes you owe on the property. If the buyer pays any of your selling expenses for you, that amount is also included in the selling price. The selling price does not include interest, whether stated or unstated.

Installment sale basis. The adjusted basis plus selling expenses and depreciation recapture income (see *Other Rules)* is referred to in this publication as the installment sale basis.

Adjusted basis. Basis is a way of measuring your investment in the property you are selling. The way you figure basis depends on how you first acquired the property. The basis of property you bought is generally its cost. The basis of property you inherited, received as a gift, built yourself, or received in a tax-free exchange is figured differently.

While you own personal-use property, various events may change your original basis in the property. Some events, such as adding rooms or making permanent improvements, increase basis. Others, such as damage from deductible casualty losses or depreciation allowed or allowable, decrease basis. The result is adjusted basis.

For more information on how to figure basis and adjusted basis, see Publication 551.

Selling expenses. Selling expenses are any expenses that relate to the sale of the property. They include commissions, attorney fees, and any other expenses paid on the sale. Selling expenses are added to the basis of the sold property.

Depreciation recapture. If you took depreciation deductions on the asset, part of the gain on the sale of the asset may be recaptured as ordinary income. See the discussion of depreciation recapture under *Other Rules,* later.

Gross profit. For an installment sale, gross profit is the total gain you report on the installment method.

To figure your gross profit, subtract your installment sale basis from the selling price. If the property you sold was your home, subtract from the gross profit any gain you can postpone or exclude. See *Sale of your home,* later, under *Reporting Installment Income.*

Contract price. The contract price is the total of all principal payments you are to receive on the installment sale. It includes payments you are considered to receive, even though you are not paid anything directly. See *Payments Received,* later.

If part of the selling price is paid in cash and you hold a mortgage payable from the buyer to you for the remainder, then the contract price equals the selling price.

Gross profit percentage. A certain percentage of each payment (after subtracting interest) is reported as gain from the sale. It is called the "gross profit percentage" and is figured by dividing your gross profit from the sale by the contract price.

The gross profit percentage generally remains the same for each payment you receive. However, see the example under *Selling price reduced,* later, for a situation where the gross profit percentage changes.

Example. You sell property at a contract price of $2,000 and your gross profit is $500. Your gross profit percentage is 25% ($500 ÷ $2,000). After subtracting interest, 25% of each payment, including the down payment, is reported as gain from the sale for the tax year the payment is received.

Amount to include in income. Each year you receive a payment on the installment sale, multiply the payment (less interest) by the gross profit percentage to determine the amount you must include in income for the tax year. In certain circumstances, you may be considered to have received a payment, even though you received nothing directly. In addition to cash, a receipt of property or the assumption of your mortgage on the property sold may be considered a payment. For a detailed discussion, see *Payments Received* under *Other Rules,* later.

Selling price reduced. If the selling price is reduced at a later date, the gross profit on the sale will also change. You must then refigure your gross profit percentage for the remaining payments. Refigure your gross profit using

the reduced sale price and then subtract gain already reported. Spread the remaining gain evenly over the remaining installments. You cannot go back and refigure the gain you reported in earlier years.

Example. In 1995, you sold land with a basis of $40,000 for $100,000. Your gross profit was $60,000. You received a $20,000 down payment and the buyer's note for $80,000. The note provides for four annual payments of $20,000 each, plus 12% interest, beginning in 1996. Your gross profit percentage is 60%. You reported a gain of $12,000 on each payment received in 1995 and 1996. In 1997, you and the buyer agreed to reduce the purchase price to $85,000 and payments during 1997, 1998, and 1999 are reduced to $15,000 for each year.

The new gross profit percentage, 46.67%, is figured as follows. You will report a gain of $7,000 on each of the $15,000 installments due in 1997, 1998, and 1999.

1) Reduced selling price		$85,000
2) Minus: Basis		40,000
3) Adjusted gross profit		$45,000
4) Minus: Gain reported in 1995 & 1996		24,000
5) Gain to be reported		$21,000
6) Selling price to be received:		
Reduced selling price	$85,000	
Minus: Payments received in 1995 and 1996	40,000	$45,000
7) New gross profit percentage (line 5 ÷ line 6)		46.67%

Reporting Installment Income

Form 6252. You must use Form 6252 to report a sale of property as an installment sale. Use the form to report the sale in the year it takes place and to report payments received in later years. Attach it to your tax return for each year.

Form 6252 will help you determine the gross profit, contract price, gross profit percentage, and how much of each payment received during the tax year to include in income.

Form 6252 is divided into three parts:

1) Part I, *Gross Profit and Contract Price,* is completed for the year of sale.

2) Part II, *Installment Sale Income,* is completed for the year of sale and for any year you receive a payment or are considered to have received a payment.

3) Part III, *Related Party Installment Sale Income,* is completed if you sold the property to a related person, as discussed later under *Sale to Related Person.*

Year of sale. Answer the questions at the beginning of the form and complete Part I and Part II. Question 3 asks whether you sold the property to a related party. If you answer "Yes," answer question 4 and complete Part III.

Later years. Answer the questions at the beginning of the form and complete Part II for each year in which you receive a payment on the sale. If you sold the property to a related person, you may have to complete Part III also.

Schedule D (Form 1040). Enter the gain figured on Form 6252 for personal-use property (capital assets) on Schedule D (Form 1040), *Capital Gains and Losses.* If your gain from the installment sale qualifies for long-term capital gain treatment in the year of sale, it will continue to qualify in later tax years. Your gain is long-term if you owned the property for more than one year when you sold it.

Form 4797. An installment sale of property used in your business or that earns rent or royalty income may result in a capital gain, an ordinary gain, or both. All or part of any gain from its disposition may be ordinary gain from depreciation recapture. Use Form 4797 to report these transactions and to determine the ordinary or capital gain or loss.

Sale of your home. If you sold your home before May 7, 1997, you may be able to postpone or exclude all or part of the gain on the sale. However, different rules apply if you sold it after May 6, 1997. See Publication 523 for more information. If the sale is an installment sale, any gain you postpone or exclude is not included in gross profit when figuring your gross profit percentage.

Seller-financed mortgage. Special reporting procedures apply if you finance the sale of your home to an individual.

When you report interest income received from a buyer who uses the property as a personal residence, write the buyer's name, address, and social security number (SSN) on line 1 of Schedule B (Form 1040) or Schedule 1 (Form 1040A).

When deducting the mortgage interest, the buyer must write your name, address, and SSN on line 11 of Schedule A (Form 1040).

If either person fails to include the other person's SSN, a $50 penalty may apply.

Other Rules

The rules discussed in this part of the publication apply only in certain circumstances or to certain types of property. The rules cover:

1) Electing out of the installment method.
2) Payments received, including those considered received.
3) An escrow account.
4) Depreciation recapture income.
5) A sale to a related person.
6) A like-kind exchange.
7) A contingent sale.
8) A single sale of several assets.
9) The sale of a business.
10) Unstated interest.
11) Disposition of an installment obligation.
12) A repossession.

Electing Out of Installment Method

You are required to use the installment method to report an installment sale unless you elect not to use that method. If you make the election, you will generally report the entire gain in the year of sale, even though you will not be paid all of the selling price in that year.

To figure the gain to report, use the fair market value of the buyer's installment obligation. Notes, mortgages, and land contracts are examples of obligations that are included at fair market value.

You must figure the fair market value of the buyer's installment obligation, whether or not you would actually be able to sell it. If you use the cash method of accounting, the fair market value of the obligation will never be considered less than the fair market value of the property sold (minus any other consideration received). If you use an accrual method of accounting, you must always use the full face value of the installment obligation as its fair market value.

Example. You sold a parcel of land for $50,000. You received a $10,000 down payment and will receive the balance over the next 10 years at $4,000 a year, plus 8% interest. The buyer gave you a note for $40,000. The note had a fair market value of $40,000. You paid a commission of 6%, or $3,000, to a broker for negotiating the sale. The land cost $25,000 and you owned it for more than one year. You decide to elect out of the installment method and report the entire gain in the year of sale.

Gain realized:		
Selling price		$50,000
Minus: Property's adj. basis	$25,000	
Commission	3,000	28,000
Gain realized		$22,000
Gain recognized in year of sale:		
Cash		$10,000
Market value of note		40,000
Total realized in year of sale		$50,000
Minus: Property's adj. basis	$25,000	
Commission	3,000	28,000
Gain recognized		$22,000

The recognized gain of $22,000 is long-term capital gain. Since you include the entire gain in income in the year of sale, you do not include in income any principal payments you receive in later tax years. The interest on the note is ordinary income and is reported as interest income each year.

How to elect out. To make this election, do not report your sale on Form 6252. Instead, report it on Schedule D (Form 1040) or Form 4797, whichever applies.

When to elect out. Make this election by the due date, including extensions, for filing your tax return for the year the sale takes place. Once made, the election generally cannot be revoked. However, you can apply to the IRS to revoke the election not to use the installment method. You will not be allowed to revoke the election if:

1) One of the purposes is to avoid federal income tax, or
2) The tax year in which any payment was received has closed.

You may qualify for an automatic extension of six months from the due date of the return, ***excluding extensions,*** to make this election. See Revenue Procedure 92–85 for more information. You can read the full text of this revenue procedure at some IRS offices and public libraries.

Payments Received

Including Payments Considered Received

You must figure your gain each year on the payments you receive, or are treated as receiving, from an installment sale. These payments include the down payment and each later payment of principal on the buyer's debt to you.

In certain situations, you are considered to have received a payment, even though the buyer does not pay you directly. These situations arise if the buyer assumes or pays any of your debts, such as a loan, or pays any of your expenses, such as a sales commission.

Buyer pays seller's expenses. If the buyer pays any of your expenses related to the sale of your property, it is considered a payment to you in the year of sale. Include these expenses in the selling and contract prices when figuring the gross profit percentage.

Buyer assumes mortgage. If the buyer assumes or pays off your mortgage, or otherwise takes the property subject to the mortgage, the following rules apply.

Mortgage less than basis. If the buyer assumes a mortgage that is less than your installment sale basis in the property, it is not considered a payment to you. The contract price equals the selling price minus the mortgage. This difference is all that you will directly collect from the buyer.

Example. You sell property with an adjusted basis of $19,000. You have selling expenses of $1,000. The buyer assumes your existing mortgage of $15,000 and agrees to pay you $10,000 (a cash down payment of $2,000 and $2,000 (plus 8% interest) in each of the next 4 years).

The selling price is $25,000 ($15,000 + $10,000). Your gross profit is $5,000 ($25,000 − $20,000 installment sale basis). The contract price is $10,000 ($25,000 − $15,000 mortgage). Your gross profit percentage is 50% ($5,000 ÷ $10,000). You report half of each $2,000 payment received as gain from the sale. You also report all interest you receive as ordinary income.

Mortgage more than basis. If the buyer assumes a mortgage that is more than your installment sale basis in the property, you recover your entire basis. You are also relieved of the obligation to repay the amount borrowed. The part of the mortgage greater than your basis is treated as a payment received in the year of sale. This is in addition to the buyer's other payments.

To figure the contract price, subtract the mortgage from the selling price. This is the total you will actually receive from the buyer. Add to this amount the “payment” you are considered to receive (the difference between the mortgage and your installment sale basis). The contract price is then the same as your gross profit from the sale.

If the mortgage the buyer assumes is equal to or more than your installment sale basis in the property, the gross profit percentage will always be 100%.

Example. The selling price for your property is $9,000. The buyer will pay you $1,000 annually (plus 8% interest) over the next 3 years and assume an existing mortgage of $6,000. Your adjusted basis in the property is $4,400. You have selling expenses of $600, for a total installment sale basis of $5,000. The part of the mortgage that is more than your installment sale basis is $1,000 ($6,000 − $5,000). This amount is included in the contract price and treated as a payment received in the year of sale. The contract price is $4,000:

Selling price		$9,000
Minus: Mortgage		(6,000)
Amount actually received		$3,000
Add difference:		
Mortgage	$6,000	
Less: Installment sale basis	5,000	1,000
Contract price		$4,000

Your gross profit on the sale is also $4,000:

Selling price	$9,000
Minus: Installment sale basis	(5,000)
Gross profit	$4,000

Your gross profit percentage is 100%. Report 100% of each payment as gain from the sale. Treat the $1,000 difference between the mortgage and your installment sale basis as a payment and report 100% of it as gain in the year of sale.

Mortgage canceled. If the buyer of your property is the person who holds the mortgage on it, your debt is canceled, not assumed. You are considered to receive a payment equal to the outstanding canceled debt.

Example. Mary Jones loaned you $4,500 in 1993 in exchange for a note mortgaging a tract of land you owned. On April 4, 1997, she bought the land for $7,000. At that time, $3,000 of her loan to you was outstanding. She agreed to forgive this $3,000 debt and to pay you $2,000 (plus interest) on August 1, 1997, and August 1, 1998. She did not assume an existing mortgage. She canceled the $3,000 debt you owed her. You are considered to have received a $3,000 payment at the time of the sale.

Buyer assumes other debts. If the buyer assumes your other debts, such as a loan or back taxes, it may be considered a payment to you in the year of sale.

If the buyer assumes the debt instead of paying it off, only part of it may have to be treated as a payment. Compare the debt to your installment sale basis in the property being sold. If the debt is less than your installment sale basis, none of it is treated as a payment. If it is more, only the difference is treated as a payment. If the buyer assumes more than one debt, any part of the total that is more than your installment sale basis is considered a payment. These rules are the same as the rules discussed earlier under *Buyer assumes mortgage.* However, they apply to only two types of debts the buyer assumes:

1) Those acquired from ownership of the property you are selling, such as a mortgage, lien, overdue interest, or back taxes.

2) Those acquired in the ordinary course of your business, such as a balance due for inventory you purchased.

If the buyer assumes any other type of debt, such as a personal loan, it is treated as if the buyer had paid off the debt at the time of the sale. The value of the assumed debt is then considered a payment to you in the year of sale.

Payment of property. If you receive property rather than money from the buyer, it is still considered a payment. However, see *Like-Kind Exchange,* later. The value of the payment is the property's fair market value on the date you receive it.

Fair market value. This is the price at which property would change hands between a buyer and a seller, neither being required to buy or sell, and both having reasonable knowledge of all necessary facts. If your installment sale fits this description, the value assigned to property in your agreement with the buyer is good evidence of its fair market value.

Third-party note. If the property the buyer gives you is a third-party note (or other obligation of a third party), you are considered to have received a payment equal to the note's fair market value. Because the note is itself a payment on your installment sale, any payments you later receive from the third party are not considered payments on your sale.

Example. You sold real estate in an installment sale. As part of the down payment, the buyer assigned to you a $5,000, 8% note of a third party. The fair market value of the third-party note at the time of your sale was $3,000. This amount, not $5,000, is a payment to you in the year of sale. Because the third-party note had a fair market value equal to 60% of its face value ($3,000 ÷ $5,000), 60% of each payment of principal you receive on this note is a return of capital. The remaining 40% is ordinary income. The interest you receive is reported in full as ordinary income.

Bond. A bond or other evidence of debt you receive from the buyer that is payable on demand is treated as a payment in the year you receive it. If you receive a government or corporate bond that has interest coupons attached or that can be readily traded in an established securities market, you are considered to have received payment equal to the bond's fair market value. Accrual basis taxpayers should see Regulations section 15A.453–1(e)(2).

Buyer's note. The buyer's note (unless payable on demand) is not considered payment on the sale. Its full face value is included when figuring the selling price and the contract price. Payments you receive on the note are used to figure your gain in the year you receive them.

Guarantee. If a third party or government agency guarantees the buyer's payments to you on an installment obligation, the guarantee itself is not considered payment.

Deposit. A deposit you receive before the year of sale is treated as a payment in the year of sale if, under the contract, it becomes part of the down payment.

Installment obligation used as security (pledge rule). If you use an installment obligation to secure any debt, the net proceeds from the debt may be treated as a payment on the installment obligation. This is known as the pledge rule and it applies if the selling price of the property was over $150,000. It does not apply to the sale of:

1) Property used or produced in farming, or

2) Personal-use property.

The net debt proceeds are the gross debt minus the direct expenses of getting the debt. The amount treated as a payment is considered received on the later of:

1) The date the debt becomes secured, or
2) The date you receive the debt proceeds.

A debt is secured by an installment obligation to the extent that payment of principal or interest on the debt is directly secured (under the terms of the loan or any underlying arrangement) by any interest in the installment obligation.

Limit. The net debt proceeds treated as a payment on the pledged installment obligation cannot be more than the excess of:

1) The total contract price on the installment sale, over
2) Any payments received on the installment obligation before the date the net debt proceeds are treated as a payment.

Installment payments. The pledge rule accelerates the reporting of the installment obligation payments. Do not report payments received on the obligation after it has been pledged until the payments received are more than the amount reported under the pledge rule.

Exception. The pledge rule does not apply to debt incurred after December 17, 1987, to refinance a debt that was:

1) Outstanding on December 17, 1987, and
2) Secured by that installment sale obligation on that date and at all times thereafter until the refinancing.

A refinancing as a result of the creditor's calling of the debt is treated as a continuation of the original debt if the refinancing is provided by a person other than the creditor or a person related to the creditor.

This exception applies only to the refinancing that does not exceed the principal of the original debt immediately before the refinancing. Any excess is treated as a payment on the installment obligation.

Escrow Account

In some cases, the sales agreement, or a later agreement, may call for the buyer to establish an irrevocable escrow account from which the remaining installment payments (including interest) are to be made. Generally, these sales cannot be reported on the installment method. The buyer's obligation is paid in full when the balance of the purchase price is deposited into the escrow account. When an escrow account is established, you no longer rely on the buyer for the rest of the payments, but on the escrow arrangement.

Example. You sell property for $10,000. The sales agreement calls for a down payment of $1,000 and payment of $1,500 in each of the next 6 years to be made from an irrevocable escrow account containing the balance of the purchase price plus interest. You cannot report the sale on the installment method because the full purchase price is considered received in the year of sale. You must report the entire gain in the year of sale.

Escrow established in a later year. If you make an installment sale and in a later year an irrevocable escrow account is established to pay the remaining installments plus interest, the amount placed in the escrow account represents payment of the balance of the installment obligation. Therefore, you cannot use the installment method to report any payments you receive from the escrow account. This is because a disposition has occurred. See *Disposition of Installment Obligation,* later.

Substantial restriction. If an escrow arrangement imposes a substantial restriction on your right to receive the sale proceeds, the sale can be reported on the installment method, provided it otherwise qualifies. For an escrow arrangement to impose a substantial restriction, it must serve a bona fide purpose of the buyer, that is, a real and definite restriction placed on the seller or a specific economic benefit conferred on the buyer.

Example. You sell your business, including all of its assets, for $50,000. The sales agreement provides for a down payment of $8,000 and payments of $7,000 in each of the next 6 years to be made from an irrevocable escrow account. The sales agreement also provides that you, the seller, will not enter a competing business for a period of 6 years. If at any time during this period you enter a competing business, you will forfeit all rights to the amounts then held in escrow. In this situation, the escrow arrangement imposes a substantial restriction and you can use the installment method.

Depreciation Recapture Income

If you sell property for which you claimed depreciation deductions, report any depreciation recapture income in the year of sale, whether or not an installment payment was received that year. Figure your depreciation recapture income (including the section 179 deduction and the section 179A deduction recapture) in Part III of **Form 4797.** Report the recapture income in Part II of Form 4797 as ordinary income in the year of sale. The recapture income is also included in Part I of Form 6252. However, the gain equal to the recapture income is not reported on the installment method. Any gain greater than the recapture income can be reported on the installment method. For more information on depreciation recapture, see chapter 4 in Publication 544.

The ordinary recapture income reported in the year of sale is included in your installment sale basis in determining your gross profit on the installment sale. See the discussion under *General Rules,* earlier.

Sale to Related Person

Two special rules apply to an installment sale between related persons. Test your sale against Rule 1 first. If Rule 1 does not apply, test your sale against Rule 2. For purposes of these rules, spouses, children, grandchildren, brothers, sisters, and parents are all considered related persons. A partnership or corporation in which you have an interest, or an estate or trust with which you have a connection, can also be considered a related person.

For more information on these kinds of sales, see section 453 of the Internal Revenue Code.

Rule 1—Sale of Depreciable Property

If you sell depreciable property to certain related persons, you cannot report the sale using the installment method. Instead, all payments to be received are considered received in the year of sale. Depreciable property for this rule is any property that can be depreciated by the person or entity to whom you transfer it.

Payments to be received include the total of all noncontingent payments and the fair market value of any payment contingent as to amount.

In the case of contingent payments for which the fair market value cannot be reasonably determined, the basis is recovered ratably. The purchaser cannot increase the basis of any property acquired in the sale by any amount before the seller includes the amount in income.

Exceptions to Rule 1. Rule 1 will not apply if no significant tax deferral benefit will be derived from the sale. It does not apply if you can show to the satisfaction of IRS that avoidance of federal income tax was not one of the principal purposes of the sale.

Rule 2—Sale and Resale

Generally, a special rule applies if you make a first disposition (sale or exchange) you report under the installment method to a related person who then makes a second disposition (sale, exchange, gift, or cancellation of installment note):

1) Before making all payments on the first disposition, and
2) Within 2 years of the first disposition.

Under this rule, you treat part or all of the amount the related person realizes (or the fair market value if disposed property is not sold or exchanged) from the second disposition as if you received it from the first disposition at the time of the second disposition.

Example 1. In 1996, Harvey Green sold farm land to his son Bob for $500,000, which was to be paid in five equal payments over 5 years, plus adequate stated interest on the balance due. His installment sale basis for the farm land was $250,000 and the property was not subject to any outstanding liens or mortgages. His gross profit percentage is 50% (gross profit of $250,000 ÷ contract price of $500,000). He received $100,000 in 1996 and included $50,000 in income for that year ($100,000 × 0.50). Bob made no improvements to the property and sold it to Alfalfa Inc. in 1997 for $600,000 after making the payment for that year. The amount realized from the second disposition is $600,000. Harvey figures his installment sale income for 1997 as follows:

Lesser of: 1) Amount realized on second disposition, or 2) Contract price on first disposition	$500,000
Subtract: Sum of payments from Bob in 1996 and 1997	− 200,000
Amount treated as payment because of second disposition	$300,000
Add: Payment from Bob in 1997	+ 100,000
Total payments received and treated as received for 1997	$400,000
Multiply by gross profit %	× .50
Installment sale income for 1997	$200,000

Harvey will not include in his installment sale income any principal payments he receives on the installment obligation for 1998, 1999, and 2000 because he has already reported the total payments of $500,000 from the first disposition ($100,000 in 1996 and $400,000 in 1997).

Example 2. Assume the facts are the same as *Example 1* except that Bob sells the property for only $400,000. The gain for 1997 is figured as follows:

Lesser of: 1) Amount realized on second disposition, or 2) Contract price on first disposition	$400,000
Subtract: Sum of payments from Bob in 1996 and 1997	– 200,000
Amount treated as payment because of second disposition	$200,000
Add: Payment from Bob in 1997	+ 100,000
Total payments received and treated as received for 1997	$300,000
Multiply by gross profit %	× .50
Installment sale income for 1997	$150,000

Harvey receives a $100,000 payment in 1998 and another in 1999. They are not taxed because he treated the $200,000 from the disposition in 1997 as a payment received and paid tax on the gain. In 2000, he receives the final $100,000 payment. He figures the gain he must recognize in 2000 as follows:

Total payments from the first disposition received by the end of 2000		$500,000
Minus the sum of:		
Payment from 1996	$100,000	
Payment from 1997	100,000	
Amount treated as payment in 1997	200,000	
Total on which gain was previously recognized		– 400,000
Payment on which gain is recognized for 2000		$100,000
Multiply by gross profit %		× .50
Installment sale income for 2000		$50,000

Exceptions to Rule 2. These rules do not apply to a second disposition, and any later transfer, if you can show, to the satisfaction of the IRS, that neither the first disposition (to the related person) nor the second disposition had as one of its principal purposes the avoidance of federal income tax. Generally, an involuntary second disposition will qualify under the nontax avoidance exception, such as when a creditor of the related person forecloses on the property or the related person declares bankruptcy.

The nontax avoidance exception also applies to a second disposition that is also an installment sale if the terms of payment under the installment resale are substantially equal to or longer than those for the first installment sale. However, the exception does not apply if the resale terms permit significant deferral of recognition of gain from the first sale as, for example, if amounts from the resale are collected sooner.

In addition, any sale or exchange of stock to the issuing corporation is not treated as a first disposition. An involuntary conversion is not treated as a second disposition if the first disposition occurred before threat of conversion. A transfer after the death of the person making the first disposition or the related person's death, whichever is earlier, is not treated as a second disposition.

Like-Kind Exchange

If you trade business or investment property for the same kind of property, you can postpone reporting part of the gain. These trades are known as "like-kind exchanges." The property you receive in a like-kind exchange is treated as if it were a continuation of the property you give up.

In a like-kind exchange, you do not have to report any part of your gain if you receive only like-kind property. However, if you also receive money or other property in the exchange, you must report your gain to the extent of the money and the fair market value of the other property received.

For more information on like-kind exchanges, see *Like-Kind Exchanges* in chapter 1 of Publication 544.

Installment payments. If, in addition to like-kind property, you receive an installment obligation in the exchange, the following rules apply:

1) The contract price is reduced by the fair market value of the like-kind property received in the trade.

2) The gross profit is reduced by any gain on the trade that can be postponed.

3) Like-kind property received in the trade is not considered payment on the installment obligation.

Example. In 1997, George Brown trades personal property with an installment sale basis of $400,000 for like-kind property having a fair market value of $200,000. He also receives an installment note for $800,000 in the trade. Under the terms of the note, he is to receive $100,000 (plus interest) in 1998 and the balance of $700,000 (plus interest) in 1999.

George's gross profit is $600,000 ($1,000,000 selling price – $400,000 installment sale basis). The contract price is $800,000 ($1,000,000 – $200,000 fair market value of like-kind property received). The gross profit percentage is 75% ($600,000 ÷ $800,000). He reports no gain in 1997 because the like-kind property he receives is not treated as a payment for figuring gain. He reports $75,000 gain for 1998 (75% of $100,000) and $525,000 gain for 1999 (75% of $700,000).

Deferred exchanges. A deferred exchange is one in which you have transferred the property and are to receive like-kind property at a later date. Under this type of exchange, the person receiving your property may be required to place funds in an escrow account or trust. If certain rules are met, these funds will not be considered a payment until you have the right to receive the funds or, if earlier, the end of the exchange period. See Regulations section 1.1031(k)–1(j)(2) for these rules.

Contingent Sale

For installment sales, a contingent sale is one whose total selling price cannot be determined by the end of the tax year in which the sale takes place.

If the selling price cannot be determined by the end of the tax year, the contract price and the gross profit percentage cannot be determined (using the same rules that apply to an installment sale with a fixed selling price). This happens, for example, if you sell your business and the selling price includes a percentage of its profits in future years.

For rules on using the installment method for a contingent sale or a contingent sale with unstated interest, see Regulations section 15A.453–1(c).

Single Sale of Several Assets

If you sell different types of assets in a single sale, you must identify each asset to determine whether you can use the installment method to report the sale of that asset. You also have to allocate part of the selling price to each asset. If you sell assets that constitute a trade or business, see *Sale of a Business,* next.

Unless an allocation of the selling price has been agreed to by both parties in an arm's-length transaction, you must allocate the selling price to an asset based on its fair market value (FMV). If the buyer assumes a debt, or takes the property subject to a debt, you must reduce the fair market value by the debt. This is the net fair market value.

A sale of separate and unrelated assets of the same type under a single contract is reported as one transaction for the installment method. However, if an asset is sold at a loss, its disposition cannot be reported on the installment method. It must be reported separately. The remaining assets sold at a gain are reported together.

Example. You sold three separate and unrelated parcels of real property (A, B, and C) under a single contract calling for a total selling price of $130,000. The total selling price consisted of a cash payment of $20,000, the buyer's assumption of a $30,000 mortgage on parcel B, and an installment obligation of $80,000 payable in eight annual installments, plus interest at 8% a year.

Your installment sale basis for each parcel was $15,000. Your net gain was $85,000 ($130,000 – $45,000). You report the gain on the installment method.

The sales contract did not allocate the selling price or the cash payment received in the year of sale among the individual parcels. The FMV of parcels A, B, and C were $60,000, $60,000, and $10,000, respectively.

Since the installment sale basis for parcel C was more than its FMV, it was sold at a loss and must be treated separately. You must allocate the total selling price and the amounts received in the year of sale between parcel C and the remaining parcels.

The total selling price of $130,000 is allocated $120,000 for parcels A and B together and $10,000 for parcel C. The cash payment of $20,000 received in the year of sale and the note receivable should be allocated on the basis of the proportionate net FMV. The allocation is as follows:

	Parcels A and B	Parcel C
FMV	$120,000	$10,000
Minus: Mortgage assumed	30,000	-0-
Net FMV	$90,000	$10,000
Proportionate net FMV: Percentage of total	90%	10%
Payments in year of sale:		
$20,000 × 90%	$18,000	
$20,000 × 10%		$2,000
Excess of parcel B mortgage over installment sale basis	15,000	
Allocation of payments received (or considered received) in year of sale	$33,000	$2,000

The sale of parcel C cannot be reported on the installment method because the sale results in a loss. This loss of $5,000 ($10,000 selling price − $15,000 installment sale basis) is reported in the year of sale. However, if parcel C was held for personal use, the loss is not deductible.

The installment obligation of $80,000 is allocated to the property sold based on their proportionate net FMVs (90% to parcels A and B, 10% to parcel C).

Sale of a Business

The installment sale of an entire business for one overall price under a single contract is not the sale of a single asset.

Allocation of selling price. The selling price must be allocated for each asset class because:

1) The sale of a business generally includes real and personal property that can be reported on the installment method and inventory items that cannot.

2) Any depreciation recapture income from the sale of depreciable property cannot be reported on the installment method. It is reported in full in the year of the sale.

3) Assets sold at a loss cannot be reported on the installment method

Inventory. If inventory items are included in an installment sale, you may have an agreement stating which payments are for inventory and which are for the other assets being sold. If you do not, each payment must be allocated between the inventory and the other assets sold.

The sale of inventory items cannot be reported on the installment method. All gain or loss on their sale must be reported in the year of sale, even if you are paid in later years.

The amount you receive (or will receive) on the sale of inventory items is reported as ordinary business income. Your basis in the items is used to figure the cost of goods sold and the part of the selling expenses allocated to inventory is deducted as an ordinary business expense.

Residual method. Except for assets exchanged under the like-kind exchange rules, both the buyer and seller of a business must use the residual method to allocate the sale price to each business asset transferred. This method determines gain or loss from the transfer of each asset.

The residual method must be used for any transfer of a group of assets that continues a trade or business and for which the buyer's basis is determined only by the amount paid for the assets. This applies to both direct and indirect transfers, such as the sale of a business or the sale of a partnership interest in which the basis of the buyer's share of the partnership assets is adjusted for the amount paid. A group of assets constitutes a trade or business if goodwill or going concern value could, under any circumstances, attach to the assets.

The residual method provides for the sale price to be reduced first by cash, demand deposits, and similar accounts transferred by the seller. The sale price remaining after this reduction must be allocated among the various business assets in a specified order.

The allocation must be made among the following assets in proportion to (but not in excess of) their fair market value on the purchase date in the following order:

1) Certificates of deposit, U.S. government securities, readily marketable stock or securities, and foreign currency.

2) All other assets except section 197 intangibles.

3) Section 197 intangibles (goodwill, etc.).

More information. For more information, see *Sale of a Business* in chapter 2 of Publication 544. For more information on section 197 intangibles, see chapter 12 of Publication 535.

How to report the sale of a business. Both the seller and buyer must prepare and attach **Form 8594**, *Asset Acquisition Statement Under Section 1060,* to their income tax return for the year the sale occurred.

Sale of partnership interest. A partner who sells a partnership interest at a gain may be able to report the sale on the installment method. The sale of a partnership interest is treated as the sale of a single capital asset. However, the partner must make an allocation if the partnership's assets included unrealized receivables and inventory items. (The term "unrealized receivables" includes depreciation recapture income, discussed earlier.)

The gain allocated to the recapture income and the inventory cannot be reported under the installment method. The gain allocated to the other assets can be reported under the installment method.

For more information on the treatment of unrealized receivables and inventory, see Publication 541.

Example

On January 4, 1997, you sold the machine shop you operated since 1987. You received a $100,000 down payment and the buyer's note for $120,000. The note payments are $15,000 each, plus 10% interest, due every July 1 and January 1, beginning in 1998. The total selling price is $220,000. Your selling expenses are $11,000. The selling expenses are divided among all the assets sold, including inventory.

Your selling expense for each asset is 5% of the asset's selling price ($11,000 selling expense ÷ $220,000 total selling price).

The fair market value (FMV), adjusted basis, and depreciation claimed on each asset sold are as follows:

Asset	FMV	Depreciation Claimed	Adjusted Basis
Inventory	$10,000	-0-	$8,000
Land	42,000	-0-	15,000
Building	48,000	$9,000	36,000
Machine A	71,000	27,200	63,800
Machine B	24,000	12,960	22,040
Truck	6,500	18,624	5,376

Under the residual method, you allocate the selling price to each of the assets based on their FMV ($201,500). The remaining amount is allocated among your section 197 intangibles, which includes goodwill ($18,500).

The assets included in the sale, their selling prices based on their fair market values, the selling expense allocated to each asset, the adjusted basis, and the gain for each asset are shown in the following chart.

	Sale Price	Sale Exp.	Adj. Basis	Gain
Inventory	$10,000	$500	$8,000	$1,500
Land	42,000	2,100	15,000	24,900
Building	48,000	2,400	36,000	9,600
Mch. A	71,000	3,550	63,800	3,650
Mch. B	24,000	1,200	22,040	760
Truck	6,500	325	5,376	799
Goodwill	18,500	925	-0-	17,575
	$220,000	$11,000	$150,216	$58,784

The building was acquired in 1987, the year the business began, and it is section 1250 property. There is no depreciation recapture income because the building was depreciated using the straight line method.

All gain on the truck, machine A, and machine B is depreciation recapture income since it is the lesser of the depreciation claimed or the gain on the sale.

The total depreciation recapture income reported in Part II of Form 4797 is $5,209. This consists of $3,650 on machine A, $799 on the truck, and $760 on machine B (the gain on each item since it was less than the depreciation claimed). These gains are reported in full the year of sale and are not included in the installment sale computation.

Of the $220,000 total selling price, the $10,000 for inventory assets cannot be reported on the installment method. The selling prices of the truck and machines are also removed from the total selling price because gain on these items is reported in full the year of sale.

The selling price equals the contract price for the installment sale ($108,500). The assets included in the installment sale, their selling price, and their installment sale basis are shown in the following chart.

	Selling Price	Installment Sale Basis	Gross Profit
Land	$42,000	$17,100	$24,900
Building	48,000	38,400	9,600
Goodwill	18,500	925	17,575
Total	$108,500	$56,425	$52,075

The ***gross profit percentage*** (gross profit ÷ contract price) for the installment sale is 48% ($52,075 ÷ $108,500). The gross profit percentage for each asset is figured as follows:

	Percentage
Land— $24,900 ÷ $108,500	22.95
Building— $9,600 ÷ $108,500	8.85
Goodwill— $17,575 ÷ $108,500	16.20
Total	48.00

Since the sale includes assets sold on the installment method and assets for which the gain is reported in full the year of sale, pay-

ments must be allocated between the installment part of the sale and the part reported in the year of sale. The selling price for the installment sale is $108,500. This is 49.3% of the total selling price of $220,000 ($108,500 ÷ $220,000). The selling price of assets not reported on the installment method is $111,500. This is 50.7% ($111,500 ÷ $220,000) of the total selling price.

Multiply principal payments by 49.3% to determine the part of the payment for the installment sale. The balance, 50.7%, is for the part reported in the year of the sale.

The gain on the sale of the inventory, machines, and truck is reported in full the year of sale. When you receive principal payments in later years, no part of the payment for the sale of these assets is included in gross income. Only the part for the installment sale (49.3%) is used in the installment sale computation.

The only payment received in 1997 is the down payment of $100,000. The part of the payment for the installment sale is $49,300 ($100,000 × 49.3%). This amount is used in the installment sale computation.

Installment income for 1997. Your installment income for each asset is the gross profit percentage for that asset times $49,300, the installment income received in 1997.

	Income
Land—22.95% of $49,300	$11,314
Building—8.85% of $49,300	4,363
Goodwill—16.2% of $49,300	7,987
Total installment income for 1997	$23,664

Installment income after 1997. You figure installment income for years after 1997 by applying the same gross profit percentages to 49.3% of the total payments you receive on the buyer's note during the year.

Unstated Interest

An installment sale contract generally provides that each deferred payment on the sale will include interest or that there will be an interest payment in addition to the principal payment. Interest provided in the contract is called ***stated interest.***

If an installment sale contract with some or all payments due more than one year after the date of sale does not provide for interest, part of each payment due more than 6 months after the date of sale may be treated as interest. The amount treated as interest is called ***unstated interest.***

When the stated interest rate in the contract is lower than the applicable federal rate (AFR), defined below, unstated interest is the difference between interest figured at the federal rate and any interest figured at the rate specified in the sales contract.

Generally, the unstated interest rules do not apply to a debt given in consideration for a sale or exchange of personal-use property. Personal-use property is any property substantially all of the use of which by the buyer is not in a trade or business or an investment activity.

Applicable federal rate (AFR). The AFR depends on the month the binding contract for the sale or exchange of property is made and the term of the instrument. For an installment obligation, the term of the instrument is its weighted average maturity, as defined in Regulations section 1.1273–1(e)(3). If the term is:

- 3 years or less, the AFR is the federal short-term rate.
- Over 3 years, but not over 9 years, the AFR is the federal mid-term rate.
- Over 9 years, the AFR is the federal long-term rate.

The applicable federal rates are published monthly in the Internal Revenue Bulletin. You can get this information by contacting an IRS office.

Effects of Unstated Interest

If the unstated interest rules apply, you and the buyer must treat part of the installment sale price as interest. The unstated interest rules require you to treat part of each payment as interest, even though it is not called interest in your agreement with the buyer. Unstated interest reduces the stated selling price of the property and increases your interest income. It also reduces the buyer's basis in the property and increases the buyer's interest expense.

If you do not use the installment method to report the sale, you report the entire gain in the year of sale. You must reduce the selling price by the total unstated interest before you can determine the gain.

You must report the unstated interest plus any interest specified under the contract on your tax return.

Figuring Unstated Interest

A debt instrument must provide for adequate stated interest. If not, unstated interest is figured on the debt. Generally, a debt instrument provides for adequate stated interest if it calls for interest at a rate no lower than the test rate of interest applicable to the debt instrument.

Test rate of interest. The test rate of interest for a debt instrument is the 3-month rate. The 3-month rate is the lower of:

1) The lowest AFR in effect during the 3-month period ending with the first month in which there is a binding written contract that substantially sets forth the terms under which the sale or exchange is ultimately consummated, or
2) The lowest AFR in effect during the 3-month period ending with the month in which the sale or exchange occurs.

Special rules. For sales or exchanges of property (other than new section 38 property, which includes most tangible personal property) involving seller financing of $3,723,800 or less, the test rate of interest cannot be more than 9%, compounded semiannually. For seller financing over $3,723,800, and for all sales or exchanges of new section 38 property, the test rate of interest is 100% of the AFR.

For information on new section 38 property, see section 48(b) of the Internal Revenue Code, as in effect before the enactment of Public Law 101–508.

Relationship of Internal Revenue Code sections 1274 and 483. Unstated interest is imposed under section 1274 or 483 of the Code, depending on the characteristics (amount, kind of property, etc.) of the debt instrument and the sale or exchange for which it is given in consideration.

Section 1274 applies to any debt instrument issued for the sale or exchange of property if some or all payments due under the debt instrument are due more than 6 months after the date of sale or exchange. The applicable federal rate is determined under section 1274 and interest determined under that section is treated as original issue discount.

Section 483 applies to sales or exchanges of property not covered by the provisions of section 1274. Interest determined under section 483 is treated as unstated interest.

Section 483 rules. The section 483 rules apply to payments on the sale or exchange of property under a contract in which:

1) Some or all payments are due more than one year after the date of sale or exchange, and
2) There is total unstated interest (or inadequate stated interest).

Unstated interest is figured on any payment that:

1) Constitutes all or part of the selling price, and
2) Is due more than 6 months after the date of sale or exchange.

Total unstated interest. Total unstated interest is the amount equal to the excess of:

1) The sum of payments due under the contract, over
2) The sum of the present values of the payments and the present values of any interest payments due under the contract.

Transactions to which section 483 rules apply. The section 483 rules apply to:

1) Debt instruments from sales or exchanges of:
   a) A farm for $1,000,000 or less by:
      i) An individual.
      ii) An estate.
      iii) A small business corporation (defined in section 1244(c)(3) of the Internal Revenue Code).
      iv) A domestic partnership that meets requirements similar to those of section 1244(c)(3).
   b) A main home by the owner.
   c) Property with total payments (principal and interest) of $250,000 or less.
   d) Land between related parties.
2) A cash method debt instrument.

Sale of a farm. The section 483 rules apply to the sale of a farm if the selling price cannot exceed $1,000,000. If the selling price can exceed $1,000,000, the section 1274 rules (discussed later) apply. For determining the selling price, all sales and exchanges that are part of the same transaction (or a series of transactions) are treated as one sale or exchange.

Sale with total payments of $250,000 or less. The section 483 rules apply if the following cannot exceed $250,000:

1) The total payments (interest and principal) due under the debt instrument and under all other debt instruments received

as consideration for the sale or exchange, and

2) The total other consideration to be received for the sale or exchange.

The section 1274 rules apply if the amount can exceed $250,000.

Any consideration (other than a debt instrument) is taken into account at its fair market value. All sales and exchanges that are part of the same transaction (or series of related transactions) are treated as one sale or exchange.

Land sale between related parties. The section 483 rules apply to debt instruments issued in a land sale between related parties to the extent the stated principal of the debt instrument issued in the sale or exchange does not exceed $500,000 when added to the total stated principal of any other debt instruments for prior land sales between these individuals during the calendar year. The section 1274 rules, if otherwise applicable, apply to debt instruments issued in a sale of land to the extent the stated principal amount is in excess of $500,000, or if any party to the sale is a nonresident alien.

Related parties include an individual and the members of the individual's family and their spouses. Members of an individual's family include the individual's spouse, brother and sister (whether by whole or half blood), ancestors, and lineal descendants.

Cash method debt instrument. This is any debt instrument given as consideration for the sale or exchange of property (other than new section 38 property) with a stated principal of $2,659,900 or less and:

1) The lender (holder) does not use an accrual method of accounting and is not a dealer in the type of property sold or exchanged.

2) Both the borrower (issuer) and the lender jointly elect to account for interest on the debt instrument under the cash method of accounting.

3) Section 1274 of the Internal Revenue Code would apply except for the election in (2) above.

Exceptions to section 483 rules. The unstated interest rules do not apply to the following types of transactions.

Sale price of $3,000 or less. If it can be determined at the time of sale or exchange of the property that the selling price will not exceed $3,000, the unstated interest rules do not apply to the sale or exchange.

Carrying charges. The buyer of personal property does not figure unstated interest if any part of the payment includes separately stated carrying charges.

Additional exceptions. See the discussion of the exceptions that apply to both sections 483 and 1274, later.

Section 1274 rules. The section 1274 rules apply to any debt instrument given in consideration for the sale or exchange of property if:

1) The stated redemption price at maturity for the debt instrument exceeds:

   a) The stated principal when there is adequate stated interest, or

   b) The imputed principal in all other cases, ***and***

2) Some or all payments under the debt instrument are due more than 6 months after the date of the sale or exchange.

Imputed principal. There is adequate stated interest under section 1274 if the stated principal for a debt instrument is less than or equal to the imputed principal. The imputed principal of any debt instrument is equal to the sum of the present values of all payments under the debt instrument. The present value of any payment is determined by using the AFR for the date of sale or exchange. If a debt instrument has a single fixed interest rate paid or compounded at least annually, and the rate is equal to or greater than the test rate, there is adequate stated interest.

Issue price. In transactions to which section 1274 applies, the issue price of the debt instrument must be determined. Where there is adequate stated interest, the issue price is the stated principal. If the debt instrument does not provide for adequate stated interest, the issue price of the instrument is the imputed principal of the debt instrument. The issue price of a debt instrument is generally used to determine the sale price (in whole or in part) of any property acquired for the debt instrument.

Exceptions to imputed principal rules. The imputed principal rules do not apply to any of the debt instruments involved in transactions listed earlier under *Transactions to which section 483 rules apply.* (Also see *Exceptions to sections 483 and 1274,* below.)

Assumption of debt instrument. Do not apply the imputed principal rules to the assumption of a debt instrument or if property is taken subject to the debt instrument. However, these rules do apply if the terms or conditions of the debt instrument are modified or the nature of the transaction is changed.

Exceptions to sections 483 and 1274. The unstated interest and imputed principal rules do not apply in the following circumstances.

Publicly traded debt instruments or property. Transactions involving publicly traded debt instruments or any debt instrument issued in consideration for the sale or exchange of publicly traded property are not subject to these rules. A publicly traded instrument is one that is traded on an established securities market.

Patents. When all substantial rights to a patent, or an undivided interest in property that includes part of all substantial rights to a patent, are sold or exchanged, do not figure unstated interest or imputed principal on any amount contingent on the productivity, use, or disposition of the property transferred. This rule applies only if long-term capital gain or loss treatment applies to the sale (see Publication 544).

Annuities. Payments that depend in whole or in part on the life expectancy of any individual do not require the computation of unstated interest or imputed principal.

Personal-use property. Debt instruments issued in consideration for the sale or exchange of personal-use property where substantially all of its use by the buyer is for other than a trade or business or as income-producing property are not subject to the unstated interest or imputed principal rules.

More information. For information on figuring unstated interest and other special rules, see sections 483 and 1274 of the Internal Revenue Code and their regulations.

Disposition of Installment Obligation

A disposition generally includes a sale, exchange, cancellation, bequest, distribution, or transmission of an installment obligation. An “installment obligation” is the buyer's note, deed of trust, or other evidence the buyer will make future payments to you.

If you are using the installment method and you dispose of the installment obligation, you generally have a gain or loss to report. It is considered gain or loss on the sale of the property for which you received the installment obligation. If the original installment sale produced ordinary income, the disposition of the obligation will result in ordinary income or loss. If the original sale resulted in a capital gain, the disposition of the obligation will result in a capital gain or loss.

Use the following rules to figure your gain or loss from the disposition of an installment obligation.

1) If you ***sell or exchange the obligation,*** or if you accept less than face value in satisfaction of the obligation, the gain or loss is the difference between your basis in the obligation and the amount you realize.

2) If you ***dispose of the obligation in any other way,*** the gain or loss is the difference between your basis in the obligation and its fair market value at the time of the disposition. This rule applies, for example, when you give the installment obligation to someone else or cancel the buyer's debt to you.

Basis. Figure your basis in an installment obligation by multiplying the unpaid balance on the obligation by your gross profit percentage. Subtract that amount from the unpaid balance. The result is your basis in the installment obligation.

Example. Several years ago, you sold property on the installment method. The buyer still owes you $10,000 of the sale price. This is the unpaid balance on the buyer's installment obligation to you. Because your gross profit percentage is 60%, $6,000 (60% × $10,000) is the profit owed you on the obligation. The rest of the unpaid balance, $4,000, is your basis in the obligation.

Transfer between spouses or former spouses. No gain or loss is recognized on the transfer of an installment obligation between a husband and wife or a former husband and wife if incident to a divorce. A transfer is incident to a divorce if it occurs within one year after the date on which the marriage ends or is related to the end of the marriage. The same tax treatment for the transferred obligation applies to the spouse or former spouse receiving it as applied to the transferor spouse or former spouse. The basis of the obligation to the transferee spouse (or former spouse) is the adjusted basis of the transferor spouse.

The nonrecognition rule does not apply if the spouse or former spouse receiving the obligation is a nonresident alien.

Gift. A gift of an installment obligation is a disposition. The gain or loss is the difference between your basis in the obligation and its

fair market value at the time you make the gift.

For gifts between spouses or former spouses, see *Transfers between spouses or former spouses,* above.

Cancellation. If an installment obligation is canceled or otherwise becomes unenforceable, it is treated as a disposition other than a sale or exchange. Your gain or loss is the difference between your basis in the obligation and its fair market value at the time you cancel it. If the parties are related, the fair market value of the obligation is considered to be no less than its full face value.

Forgiving part of the buyer's debt. If you accept part payment on the balance of the buyer's installment debt to you and forgive the rest of the debt, you treat the settlement as a disposition of the installment obligation. The gain or loss is the difference between your basis in the obligation and the amount you realize on the settlement.

If you reduce the selling price but do not cancel the rest of the buyer's debt to you, it is not considered a disposition of the installment obligation. You must refigure the gross profit percentage and apply it to payments you receive after the reduction. See *Selling price reduced* under *General Rules,* earlier.

Assumption. If the buyer of your property sells it to someone else and you agree to let the new buyer assume the original buyer's installment obligation, you have not disposed of the installment obligation. It is not a disposition even if the new buyer pays you a higher rate of interest than the original buyer.

Transfer due to death. The transfer of an installment obligation (other than to the buyer) as a result of the death of the seller (or other holder of the obligation) is not a disposition. Any unreported gain from the installment obligation is not treated as gross income to the decedent. No income is reported on the decedent's return due to the transfer. This means whoever receives the installment obligation as a result of the seller's death is taxed on the installment payments the same as the seller would have been if the seller had lived to receive the payments.

However, if an installment obligation is canceled, becomes unenforceable, or is transferred to the buyer because of the death of the holder of the obligation, it is a disposition. The estate must figure its gain or loss on the disposition. If the holder and the buyer were related, the fair market value of the installment obligation is considered to be no less than its full face value.

Repossession

If you repossess your property after making an installment sale, you must figure:

1) Your gain (or loss) on the repossession, and
2) Your basis in the repossessed property.

The rules for figuring these amounts depend on the kind of property you repossess. The rules for repossessions of personal property differ from those for real property. Special rules may apply if you repossess property that was your main home before the sale.

The repossession rules apply whether or not title to the property was ever transferred to the buyer. It does not matter how you repossess the property, whether you foreclose or the buyer voluntarily surrenders the property to you. However, it is not a repossession if the buyer puts the property up for sale and you repurchase it.

For the repossession rules to apply, the repossession must at least partially discharge (satisfy) the buyer's installment obligation to you. The discharged obligation must be secured by the property you repossess. This requirement is met if the property is auctioned off after you foreclose and you apply the installment obligation to your bid price at the auction.

Reporting the repossession. You report gain or loss from a repossession on the same form you used to report the original sale. If you reported the sale on Form 4797, use Form 4797 to report the gain or loss on the repossession.

Personal Property

If you repossess personal property, you may have a gain or a loss on the repossession. In some cases, you may also have a bad debt.

To figure your gain or loss, subtract the total of your basis in the installment obligation and any expenses you have for the repossession from the fair market value of the property. If you receive anything from the buyer besides the repossessed property, it is added to the property's fair market value before making this calculation.

How you figure your basis in the installment obligation depends on whether or not you reported the original sale on the installment method. The method you used to report the original sale also affects the character of your gain or loss on the repossession.

For sales not reported on the installment method: (see *Electing Out of Installment Method,* earlier)

Basis in installment obligation. Your basis is figured on its full face value or its fair market value at the time of the original sale, whichever you used to figure your gain or loss in the year of sale. From this amount, subtract all payments of principal you have received on the obligation. The result is your basis in the installment obligation. If only part of the obligation is discharged by the repossession, figure your basis in only that part.

Gain or loss. To your basis in the obligation, add any repossession costs. If the fair market value of the property you repossess is more than this total, you have a gain. Because it is gain on the installment obligation, it is all ordinary income. If the fair market value of the repossessed property is less than the total of your basis plus repossession costs, you have a loss. Because you included the full gain in income in the year of sale, the loss is a bad debt. How you deduct the bad debt depends on whether you sold business or nonbusiness property in the original sale. See Publication 550 for information on nonbusiness bad debts and chapter 14 of Publication 535 for information on business bad debts.

For sales reported on the installment method:

Basis in installment obligation. Multiply the unpaid balance of your installment obligation by your gross profit percentage. Subtract that amount from the unpaid balance. The result is your basis in the installment obligation.

Gain or loss. If the fair market value (FMV) of the repossessed property is more than the total of your basis in the obligation plus any repossession costs, you have a gain. If the FMV is less, you have a loss. Your gain or loss on the repossession is the same character (long-term or ordinary) as your gain on the original sale.

Use the following worksheet to determine the taxable gain or loss on a repossession of personal property reported on the installment method.

1) FMV of property repossessed		______
2) Unpaid balance of installment obligation	______	
3) Unrealized profit (line 2 × gross profit %)	______	
4) Basis of obligation (line 2 – line 3)	______	
5) Plus: Repossession costs	______	______
6) Gain or loss on repossession (line 1 – line 5)		______

Example. You sold your piano for $1,500 in December 1996 for $300 down and $100 a month (plus interest). The payments began in January 1997. Your gross profit percentage is 40%. You reported the sale on the installment method on your 1996 income tax return. After the fourth monthly payment, the buyer defaults on the contract (which has an unpaid balance of $800) and you are forced to foreclose on the piano. The FMV of the piano on the date of repossession is $1,400. The legal costs of foreclosure and the expense of moving the piano back to your home total $75. You figure your gain on the repossession as follows:

1) FMV of property repossessed		$1,400
2) Unpaid balance of installment obligation	$800	
3) Unrealized profit (line 2 × gross profit %)	320	
4) Basis of obligation (line 2 – line 3)	480	
5) Plus: Repossession costs	75	555
6) Gain on repossession (line 1 – line 5)		$845

Basis in repossessed property. Your basis in repossessed personal property is its fair market value at the time of the repossession.

Fair market value. The fair market value of repossessed property is a question of fact to be established in each case. If you bid for the property at a lawful public auction or judicial sale, its fair market value is presumed to be the price it sells for, unless there is clear and convincing evidence to the contrary.

Real Property

The rules for the repossession of real property allow you to keep essentially the same adjusted basis in the repossessed property as you had before the original sale. You can recover this entire adjusted basis when you resell the property. This, in effect, cancels out the tax treatment you had on the original sale and puts you in the same tax position you were in before that sale.

Therefore, the total payments you have received from the buyer on the original sale

must be regarded as income to you. You report, as gain on the repossession, any part of the payments you have not yet included in income. This is considered a return of your adjusted basis rather than gross profit. However, the total gain you report is limited, as discussed later.

Conditions. The following rules are ***mandatory.*** You must use them to figure your basis in the repossessed real property and your gain on the repossession. They apply whether or not you reported the sale on the installment method. However, they apply only if all of the following conditions are met.

1) The repossession must be to protect your security rights in the property.
2) The installment obligation satisfied by the repossession must have been received in the original sale.
3) You cannot pay any additional consideration to the buyer to get your property back, unless either:
    a) The reacquisition and payment of the additional consideration were provided for in the original contract of sale, or
    b) The buyer has defaulted, or default is imminent.

"Additional consideration" includes money and other property you pay or transfer to the buyer. For example, additional consideration is present if you reacquire the property subject to a debt that arose after the original sale.

Conditions not met. If any one of these three conditions is not met, use the rules discussed under *Personal Property,* earlier, as if the property you repossess were personal rather than real property. Do not use the rules for real property.

Figuring gain on repossession. Your gain on repossession is the difference between:

1) The total payments received, or considered received, on the sale, and
2) The total gain already reported as income.

See the earlier discussions under *Payments Received* for items considered payment on the sale.

Limit on taxable gain. Taxable gain is limited to your gross profit on the original sale minus the sum of:

1) The gain on the sale you reported as income before the repossession, and
2) Your repossession costs.

This method of figuring taxable gain, in essence, treats all payments received on the sale as income, but limits your total taxable gain to the gross profit you originally expected on the sale.

Indefinite selling price. The limit on taxable gain does not apply if the selling price is indefinite and cannot be determined at the time of repossession. For example, a selling price stated as a percentage of the profits to be realized from the buyer's development of the property is an indefinite selling price.

Character of gain. The taxable gain on repossession is ordinary income or capital gain, the same as the gain on the original sale. However, if you did not report the sale on the installment method, the gain is ordinary income.

Repossession costs. Your repossession costs include money or property you pay to reacquire the real property. This includes amounts paid to the buyer of the property, as well as amounts paid to others for such items as:

1) Court costs.
2) Legal fees.
3) Publishing, acquiring, filing, or recording of title.
4) Lien clearance.

Repossession costs do not include the fair market value of the buyer's obligations to you that are secured by the real property.

Use the following worksheet to determine the taxable gain on a repossession of real property reported on the installment method.

1) Payments received before repossession ..		____
2) Minus: Gain reported		____
3) Gain on repossession		____
4) Gross profit on sale		____
5) Gain reported (line 2)	____	
6) Plus: Repossession costs	____	____
7) Subtract line 6 from line 4		____
8) Taxable gain (lesser of line 3 or 7)		____

Example. You sold a tract of land in January 1995 for $25,000. You accepted from the buyer a $5,000 down payment, plus a $20,000 mortgage secured by the property and payable at the rate of $4,000 annually plus interest (9.5%). The payments began on January 1, 1996. Your adjusted basis in the property was $19,000 and you reported the transaction as an installment sale. Your selling expenses were $1,000. You figured your gross profit as follows:

Selling price		$25,000
Minus:		
Adjusted basis	$19,000	
Selling expenses	1,000	20,000
Gross profit		$5,000

For this sale, the contract price equals the selling price. The gross profit percentage is 20% ($5,000 gross profit ÷ $25,000 contract price).

In 1995, you included $1,000 in income (20% × $5,000 down payment). In 1996, you reported a profit of $800 (20% × $4,000 annual installment). In 1997, the buyer defaulted and you repossessed the property. You paid $500 in legal fees to get your property back. Your taxable gain on the repossession is figured as follows:

1) Payments received before repossession .		$9,000
2) Minus: Gain reported		1,800
3) Gain on repossession		$7,200
4) Gross profit on sale		$5,000
5) Gain reported (line 2)	$1,800	
6) Plus: Repossession costs	500	2,300
7) Subtract line 6 from line 4		$2,700
8) Taxable gain (lesser of line 3 or 7)		$2,700

Basis. Your basis in the repossessed property is determined as of the date of repossession. It is the sum of your:

1) Adjusted basis in the installment obligation.
2) Repossession costs.
3) Taxable gain on the repossession.

To figure your adjusted basis on the installment obligation at the time of repossession, multiply the unpaid balance by the gross profit percentage. Subtract that amount from the unpaid balance.

Use the following worksheet to determine the basis of real property repossessed.

1) Unpaid balance of obligation		____
2) Minus: Unrealized profit (line 1 × gross profit %)		____
3) Adjusted basis (date of repossession)		____
4) Plus: Taxable gain on repossession	____	
Repossession costs	____	____
5) Basis of repossessed real property		____

Example. Assume the same facts as the preceding example. The unpaid balance of the installment obligation (the $20,000 note) is $16,000 at the time of repossession because the buyer made a $4,000 payment. The gross profit percentage on the original sale was 20%. Therefore, $3,200 (20% × $16,000 still due on the note) is unrealized profit. You figure your basis in the repossessed property as follows:

Unpaid balance of obligation		$16,000
Minus: Unrealized profit		3,200
Adjusted basis (date of repossession)		$12,800
Plus: Taxable gain on repossession	$2,700	
Repossession costs	500	3,200
Basis of repossessed real property		$16,000

Holding period for resales. If you resell the repossessed property, the resale may result in a capital gain or loss. To figure whether the gain or loss is long-term or short-term, your holding period includes the period you owned the property before the original sale plus the period after the repossession. It does not include the period the buyer owned the property.

If the buyer made improvements to the reacquired property, the holding period for these improvements begins on the day after the date of repossession.

Bad debt. If you repossess real property under these rules, you cannot take a bad debt deduction for any part of the buyer's installment obligation. This is true even if the obligation is not fully satisfied by the repossession.

If you took a bad debt deduction before the tax year of repossession, you are considered to have recovered the bad debt when you repossess the property. The bad debt deduction you took in the earlier year must be reported as income in the year of repossession. However, if any part of the earlier deduction did not reduce your tax, you do not have to report that part as income. Your adjusted basis in the installment obligation is increased by the amount you report as income from recovering the bad debt.

Repossessing Your Former Home

If you sold your home before May 7, 1997, you may be able to postpone paying tax on part or all of your gain if you acquire a replacement home within a specified period of time. You may also be able to exclude part or all of your gain from income if you are age 55 or older and meet certain other requirements. Different rules apply if you sold your home after May 6, 1997. See Publication 523 for more information.

If you use the installment method to report the sale of your home on which you excluded or postponed gain, special rules apply if you repossess your former home and then sell it within a year of the repossession. Under these rules, you do not have any gain or loss at the time of repossession. Instead, the sale and resale are combined and treated as a single transaction. You then figure your gain on the sale-resale, including the amount you can exclude or the amount on which you can postpone paying tax. These special rules apply only if:

1) The resale takes place within one year of the repossession, and
2) At least some of your gain on the original sale was not taxed because you acquired a replacement home or excluded gain on the sale.

If you do not meet both requirements, the general rules for repossessions of real property discussed earlier under *Real Property* apply.

Redetermination of gain. To refigure your gain under the special rules:

1) Figure the amount you realize on the sale-resale and your adjusted basis in the home.
2) Find the difference between these two amounts. This is your gain on the sale-resale.
3) Then figure the gain on which you can exclude or postpone paying tax, using the same rules that apply to a regular sale of your home.

Amount realized. To figure the amount realized on the sale-resale of your home:

1) Add the selling prices of the:
   a) Original sale, and
   b) Resale.
2) From that total, subtract:
   a) Your selling expenses for both sales.
   b) The part of the original installment obligation unpaid at the time of repossession.
   c) Your repossession costs.

Example. You sold your home for $50,000. Two years after the sale, you repossessed your property and resold it within one year for $55,000. When you repossessed the property, the first buyer owed you $36,000 on the original sale and you paid $1,000 for the repossession. Your selling expenses were $2,000 originally and $3,000 on the resale.

The amount realized on the sale-resale is figured as follows:

Original sale price		$50,000
Plus: Resale price		55,000
Total		$105,000
Minus: Original sale expenses	$2,000	
Resale expenses	3,000	
Unpaid note amount	36,000	
Repossession costs	1,000	42,000
Amount realized on sale-resale		$63,000

Adjusted basis. To figure your adjusted basis for the sale-resale, begin with your adjusted basis in the property at the time of the original sale and make any adjustments to the property for expenses incurred after repossession. You cannot adjust your basis for expenses incurred during the period the buyer owned the property.

You may have to make two other adjustments:

1) If the buyer became further in debt to you after the original sale and this debt was also secured by the property you repossessed, add the amount outstanding on this debt when figuring your adjusted basis. In this way, you will take the full amount owed you into account when figuring gain on the sale-resale.
2) If, in an earlier year, you took a bad debt deduction for any of the buyer's obligations secured by the property you repossess, subtract the deduction when figuring your adjusted basis. If only part of the deduction served to reduce your tax, subtract only that part.

Excluded gain on resale. If you are excluding any part of your gain, use the gain on the sale-resale to see how much gain you can exclude.

Postponed gain on resale. If you bought a replacement home and are postponing paying tax on part of your gain for that reason, you must refigure both:

1) The gain you can postpone, and
2) Your adjusted basis in the replacement home.

Fixing-up expenses. Generally, if you sold your home before May 7, 1997, you can take into account “fixing-up expenses” for both the sale and resale. Subtract any fixing-up expenses you had for either sale from the amount realized on the sale-resale. The result is the adjusted selling price for the sale-resale. Compare this amount to (1) the cost of the replacement home and (2) your gain from the sale-resale to figure both the gain you can postpone and your adjusted basis in the replacement home. See Publication 523 for information on fixing-up expenses.

If you sold your home after May 6, 1997, these rules do not apply. However, if you meet certain requirements you can choose to use them. See the discussion under *Choosing To Use Rules for Sales Before May 7, 1997,* in chapter 4 of Publication 523.

Reporting taxable gain. If you reported any gain from the original sale, subtract that amount when reporting gain from the sale-resale. Make any necessary adjustments on your tax return for the year of resale.

Bad debt. If you repossess your home under these rules, you cannot take a bad debt deduction for the original installment obligation or for any other obligation secured by the property you repossess as a result of this reacquisition.

Reporting an Installment Sale

Form 6252. Use Form 6252 to report a sale of property on the installment method. The form is used to report the sale in the year it takes place and to report payments received in later years. Also, if you sold property to a related person, you may have to file the form each year until the installment debt is paid off, whether or not you receive a payment in that year.

Related person. If you sell marketable securities to a related person, complete Part III, Form 6252, for each year of the installment agreement, even if you do not receive a payment in that year.

If you sell property other than marketable securities to a related person, complete Part III for the year of sale and the 2 years following the year of sale, even if you do not receive a payment. After this 2-year period, you do not have to fill out Part III.

If the related person to whom you sold your property disposes of it, you may have to immediately report the rest of your gain in Part III. See *Rule 2—Sale and Resale* under *Sale to Related Person,* earlier, for more information.

Several assets. If you sell two or more assets in one installment sale, you may have to report the sale of each asset separately. The same is true if you sell all the assets of your business in one installment sale. See *Single Sale of Several Assets* and *Sale of a Business,* earlier.

If you have only a few sales to report separately, you can use a separate Form 6252 for each one. However, if you have to report separately the sales of many assets that you sold together, do not prepare a separate Form 6252 for each one. Instead, prepare one Form 6252 and attach a schedule with all the information for each asset that is required by Form 6252. Complete Form 6252 as follows:

1) Answer the questions at the top of the form.
2) In the year of sale, do not complete Part I. Instead, write “See attached schedule” in the margin.
3) For Part II, enter the total for all the assets on lines 24, 25, and 26.
4) For Part III, answer all the questions that apply. If none of the exceptions under question 29 apply, enter the totals on lines 35, 36, and 37 for the disposed assets.

Special situations. If you are reporting payments from an installment sale as income in respect of a decedent or as a beneficiary of a trust, including a partial interest in such a sale, you may not be able to provide all the information asked for on Form 6252. To the extent possible, follow the instructions given above and provide as many details as possible in a statement attached to Form 6252.

For more information on how to complete Form 6252, see the form instructions.

Other forms. The gain from Form 6252 is carried over and entered on Schedule D (Form 1040), *Capital Gains and Losses,* Form 4797, *Sales of Business Property,* or both.

Schedule D (Form 1040). Enter the gain figured on Form 6252 for personal-use property (capital assets) on Schedule D (Form 1040). If your gain from the installment sale qualifies for long-term capital gain treatment in the year of sale, it will continue to qualify in later tax years. Your gain is long-term if you owned the property for more than one year when you sold it.

Although the references in this publication are to the Schedule D for Form 1040, the rules discussed also apply to Schedule D for Forms 1041 (estates and trusts), 1065 (part-

nerships), 1120 or 1120–A (corporations), or 1120S (S corporations).

Form 4797. An installment sale of property used in your business or property that earns rent or royalty income may result in a capital gain, an ordinary gain, or both. All or part of any gain from its disposition may be ordinary gain from depreciation recapture. Use Form 4797 to report these transactions and to determine the ordinary or capital gain or loss.

Form 4797 is used with estate and trust, partnership, corporation, and S corporation returns, as well as individual returns.

Payments past due. If you use the cash method of accounting, do not report payments of principal you have not yet received, even if they are past due. However, if you use an accrual method of accounting, you accrue any payment due, even if you have not received it.

Examples

The following examples illustrate how to fill out Form 6252. Sample filled-in forms follow.

Example 1

On February 25, 1997, Paul Scott sold his home for $150,000 and he reported the sale under the installment method. The sale agreement provides for annual interest payments of 8% each December in addition to payments on the sale price. Paul's installment sale basis is $117,000, the total of his adjusted basis in the property ($108,000) and his selling expenses ($9,000). (See *Installment sale basis* at the beginning of this publication for a definition of the term.) His gain on the sale is $33,000 ($150,000 − $117,000).

Paul buys another home, postponing the tax on $18,000 of his gain (line 22, Form 2119). He figures the gross profit using the taxable part of the gain, $15,000 ($33,000 − $18,000). His gross profit percentage is 10% ($15,000 taxable gain ÷ $150,000 contract price).

Paul reports the interest payments as ordinary income on Form 1040. The only payment he received in 1997 was the $40,000 down payment. He also received the buyer's note for $110,000 and the payments will start in 1998. (The buyer's note is not considered a payment. See *Buyer's note* under *Payments Received,* earlier.)

Because Paul sold his home before May 7, 1997, he fills out Form 6252 for 1997 as follows:

Question 1. Paul writes a description of the property sold.

Questions 2a and 2b. Paul enters the date he acquired the home and the date he sold it.

Question 3. Paul did not sell the home to a related party. He checks the “No” box.

Part I. Paul uses this part of the form to figure the contract price and his gross profit on the sale.

Line 5. Paul enters the selling price of $150,000.

Line 6. Since the buyer did not assume his mortgage, Paul enters zero on this line.

Line 7. Paul enters $150,000.

Line 8. Paul enters his basis of $108,000.

Lines 9 and 10. Paul did not take depreciation deductions on the home. The amount on line 8 carries over to line 10.

Line 11. Paul's only selling expense was the commission of $9,000 (6% of $150,000).

Line 12. Since no depreciation was claimed, Paul has no depreciation recapture income.

Line 13. Paul's installment sale basis is $117,000, the total of his basis in the property plus his selling expenses.

Line 14. Paul subtracts line 13 from line 5 and enters the result, $33,000.

Line 15. Paul enters $18,000, the part of the gain he can postpone.

Line 16. Paul subtracts line 15 from line 14 and enters the result, $15,000.

Line 17. Paul enters zero.

Line 18. The contract price, $150,000, is the sum of all payments Paul will receive on the sale.

Part II. In this part, Paul figures the gain from the sale to report for 1997.

Line 19. Paul's gross profit percentage for the sale is the gross profit on line 16 ($15,000) ÷ the contract price on line 18 ($150,000) or 10%.

Line 20. Paul enters zero.

Line 21. The only payment Paul received during 1996 was the down payment of $40,000.

Line 22. Paul enters $40,000.

Line 23. Since 1997 is the year of sale, Paul makes no entry here.

Line 24. The gross profit percentage (line 19) is 10%. Therefore, Paul enters 10% of $40,000 (line 22), or $4,000.

Lines 25 and 26. Since Paul sold undepreciated property, he does not have to recapture any depreciation deductions as ordinary income. He carries the amount on line 26 to Schedule D (Form 1040) where it is included with other long-term capital gains.

Example 2

On November 1, 1997, Mark Moore sold a lot that he bought on February 17, 1990, for $2,650. He borrowed more on the lot than he had paid for it. At the time of the sale, $6,500 remained outstanding on these loans. In the sales contract, the buyer agreed to assume these loans and pay Mark $200 a month (plus 7% interest) for 3 years. In addition, the buyer made a down payment of $1,000 on the sale.

Mark fills out his 1997 Form 6252 as follows:

Question 1. Mark writes in a description of the lot he sold.

Questions 2a and 2b. Mark enters the date he acquired the lot and the date he sold it.

Question 3. Because Mark sold the lot to Acme Design, a partnership of which he is a member, he checks the “Yes” box.

Question 4. The property Mark sold was not a marketable security (such as stock or a bond). He answers “No” to this question. Because he sold the lot to a related person, he must complete Part III for 1997 and the next 2 years.

Part I. Mark uses this part of the form to figure the contract price and his gross profit on the sale.

Line 5. Mark enters the selling price, $14,700. This includes the $1,000 down payment, the $7,200 (36 × $200) in monthly payments he is to receive, and the $6,500 in loans the buyer assumes.

Line 6. Mark enters the $6,500 in outstanding loans that the buyer assumes.

Line 7. Mark subtracts line 6 from line 5 and enters the difference, $8,200.

Line 8. Because he did not make any improvements to the lot, Mark's basis at the time of the sale was the lot's cost of $2,650.

Lines 9 and 10. Mark did not take depreciation deductions on the lot (land is never depreciable). The amount on line 8 carries over to line 10.

Line 11. Mark's only selling expenses were $150 in legal fees. If he had advertised the lot for sale or paid commission on the sale, he would have included those amounts also.

Line 12. Since no depreciation was claimed on the land, Mark has no recapture of income.

Line 13. Mark's installment sale basis is $2,800, the total of his adjusted basis in the property plus his selling expenses.

Line 14. Mark subtracts line 13 from line 5 and enters the result, $11,900.

Line 16. The property Mark sold was not his home. He carries the amount on line 14 to line 16. This is his gross profit on the sale.

Line 17. Mark subtracts line 13, $2,800, from line 6, $6,500. The result, $3,700, is the amount by which the assumed loans are more than his installment sale basis in the property. This amount is treated as a payment in the year of sale on line 20.

Line 18. The contract price is the sum of all payments Mark will receive on the sale. This includes the down payment and all installment payments he will receive (line 7). It also includes the “payment” figured on line 17.

Part II. In this part, Mark figures the gain from the sale he must report for 1997.

Line 19. Mark's gross profit percentage for the sale is 100%. This is the gross profit on line 16, $11,900, divided by the contract price on line 18, also $11,900.

Line 20. Mark carries the amount he treats as a payment on line 17 to this line and it is added to the other payments he received in the year of sale.

Line 21. At the time of the sale, Mark received a down payment of $1,000. In December 1997, he received his first monthly installment payment. The total payment was $242, consisting of $42 interest (one month's interest on $7,200 figured at 7% a year) and $200 principal. This is the only installment payment he received in 1997. He enters the total received during 1997, $1,200 ($1,000 + $200), on this line. He reports the $42 interest on Form 1040.

Line 22. Mark enters $4,900, the sum of line 20 plus line 21. This is the total of all payments he is considered to have received in 1997.

Line 23. Since 1997 is the year of sale, Mark makes no entry here.

Line 24. The gross profit percentage (line 19) is 100%. Therefore, the entire amount on line 22, $4,900, is taxable gain. Mark enters this amount on line 24.

Lines 25 and 26. Because the lot Mark sold was not depreciable property, he does not have to recapture any depreciation deductions as ordinary gain. All his gain on the sale is long-term capital gain. He carries the amount on line 26 to Schedule D (Form 1040) where it is included with other long-term capital gains.

Part III. Because Mark sold the lot to his partnership, a "related person," he must fill out this part. The property he sold was not a marketable security and he completes this part for 1997, 1998, and 1999.

Line 27. Mark enters the name, address, and employer identification number of the partnership that bought the lot.

Line 28. The partnership did not sell the lot in 1997. Mark checks the "No" box and he does not have to fill out the rest of Part III.

Example 3

In December 1996, Cora Blue sold a painting she inherited. The buyer paid her $700 down and gave her an installment note for $3,800. The note calls for quarterly payments of $530 until the $3,800 debt is paid off, in about 2 years. Each $530 payment includes interest figured at 10% a year on the outstanding debt. She received her first 4 payments on the note in 1997. The principal and interest she received in each payment is given in the table below:

Payment	Interest	Principal
First	$95.00	$435.00
Second	84.13	445.87
Third	72.98	457.02
Fourth	61.55	468.45
	$313.66	$1,806.34

Cora rounds off cents on her tax return. She reports $314 interest as ordinary income on Form 1040. She completes Form 6252 as follows:

Question 1. Cora states the property she sold was an oil painting.

Questions 2a and 2b. She enters the date she acquired the painting and the date she sold it.

Question 3. The buyer was not related to Cora. She checks the "No" box.

Question 4. Because she checked "No" to question 3, Cora does not have to answer this question or fill out Part III of the form.

Part I. Cora completed Part I of her Form 6252 for the year of sale, 1996. She does not fill it out for the remaining years of the installment sale.

Part II. This is the only part of Form 6252 that Cora fills out.

Line 19. Cora figured a gross profit percentage of 22.7% on her 1996 Form 6252. She uses the same percentage on her 1997 Form 6252.

Line 20. Since this is not the year of sale, Cora enters zero on this line.

Line 21. Cora enters the total amount (minus interest) that she received on the sale in 1997, $1,806.

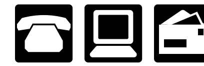
Line 22. The amount on line 21 carries over to line 22.

Line 23. Before 1997, Cora received only the $700 down payment.

Line 24. Cora multiplies the gross profit percentage of 22.7% (line 19), by the amount she was paid in 1997 (line 22), $1,806. The result, $410, is the gain she had on the sale in 1997.

Lines 25 and 26. Cora did not use the painting in a business. It was not depreciable and the recapture rules do not apply. The amount on line 24 carries over to line 26. Her gain is long-term capital gain. She carries the amount on line 26 to Schedule D (Form 1040), where it is included with other long-term capital gains.

How To Get More Information



You can get help from the IRS in several ways.

Free publications and forms. To order free publications and forms, call 1–800–TAX–FORM (1–800–829–3676). You can also write to the IRS Forms Distribution Center nearest you. Check your income tax package for the address. Your local library or post office may also have the items you need.

For a list of free tax publications, order Publication 910, *Guide to Free Tax Services.* It also contains an index of tax topics and related publications and describes other free tax services available from the IRS, including tax education and assistance programs.

If you have access to a personal computer and modem, you can also get many forms and publications electronically. See *Quick and Easy Access to Tax Help and Forms* in your income tax package for details.

Tax questions. You can call the IRS with your tax questions. Check your income tax package or telephone book for the local number, or you can call 1–800–829–1040.

TTY/TDD equipment. If you have access to TTY/TDD equipment, you can call 1–800–829–4059 to ask tax questions or to order forms and publications. See your income tax package for details.

Form **6252**

Department of the Treasury
Internal Revenue Service

Installment Sale Income

▶ See separate instructions. ▶ Attach to your tax return.
▶ Use a separate form for each sale or other disposition of property on the installment method.

OMB No. 1545-0228

1997

Attachment Sequence No. 79

Name(s) shown on return: Paul Scott

Identifying number: 111-00-2222

1 Description of property ▶ Log Cabin

2a Date acquired (month, day, year) ▶ 10 / 6 / 81 **b** Date sold (month, day, year) ▶ 2 / 25 / 97

3 Was the property sold to a related party after May 14, 1980? See instructions. If "No," skip line 4. ☐ Yes ☑ No

4 Was the property you sold to a related party a marketable security? If "Yes," complete Part III. If "No," complete Part III for the year of sale and the 2 years after the year of sale ☐ Yes ☐ No

Part I Gross Profit and Contract Price. Complete this part for the year of sale only.

Line	Description		Amount
5	Selling price including mortgages and other debts. **Do not** include interest whether stated or unstated		150,000
6	Mortgages and other debts the buyer assumed or took the property subject to, but not new mortgages the buyer got from a bank or other source	-0-	
7	Subtract line 6 from line 5	150,000	
8	Cost or other basis of property sold	108,000	
9	Depreciation allowed or allowable	-0-	
10	Adjusted basis. Subtract line 9 from line 8	108,000	
11	Commissions and other expenses of sale	9,000	
12	Income recapture from Form 4797, Part III. See instructions	-0-	
13	Add lines 10, 11, and 12		117,000
14	Subtract line 13 from line 5. If zero or less, **stop here. Do not** complete the rest of this form		33,000
15	If the property described on line 1 above was your main home, enter from Form 2119 the total of lines 14 and 22, or the amount from line 27, whichever applies. Otherwise, enter -0-		18,000
16	**Gross profit.** Subtract line 15 from line 14		15,000
17	Subtract line 13 from line 6. If zero or less, enter -0-		-0-
18	**Contract price.** Add line 7 and line 17		150,000

Part II Installment Sale Income. Complete this part for the year of sale **and** any year you receive a payment or have certain debts you must treat as a payment on installment obligations.

Line	Description		Amount
19	Gross profit percentage. Divide line 16 by line 18. For years after the year of sale, see instructions		10%
20	**For year of sale only:** Enter amount from line 17 above; otherwise, enter -0-		-0-
21	Payments received during year. See instructions. **Do not** include interest whether stated or unstated		40,000
22	Add lines 20 and 21		40,000
23	Payments received in prior years. See instructions. **Do not** include interest whether stated or unstated		
24	**Installment sale income.** Multiply line 22 by line 19		4,000
25	Part of line 24 that is ordinary income under recapture rules. See instructions		-0-
26	Subtract line 25 from line 24. Enter here and on Schedule D or Form 4797. See instructions		4,000

Part III Related Party Installment Sale Income. Do not complete if you received the final payment this tax year.

27 Name, address, and taxpayer identifying number of related party

28 Did the related party, during this tax year, resell or dispose of the property ("second disposition")? ☐ Yes ☐ No

29 **If the answer to question 28 is "Yes," complete lines 30 through 37 below unless one of the following conditions is met. Check only the box that applies.**

- **a** ☐ The second disposition was more than 2 years after the first disposition (other than dispositions of marketable securities). If this box is checked, enter the date of disposition (month, day, year) ▶ / /
- **b** ☐ The first disposition was a sale or exchange of stock to the issuing corporation.
- **c** ☐ The second disposition was an involuntary conversion where the threat of conversion occurred after the first disposition.
- **d** ☐ The second disposition occurred after the death of the original seller or buyer.
- **e** ☐ It can be established to the satisfaction of the Internal Revenue Service that tax avoidance was not a principal purpose for either of the dispositions. If this box is checked, attach an explanation. See instructions.

Line	Description	Amount
30	Selling price of property sold by related party	
31	Enter contract price from line 18 for year of first sale	
32	Enter the **smaller** of line 30 or line 31	
33	Total payments received by the end of your 1997 tax year. See instructions	
34	Subtract line 33 from line 32. If zero or less, enter -0-	
35	Multiply line 34 by the gross profit percentage on line 19 for year of first sale	
36	Part of line 35 that is ordinary income under recapture rules. See instructions	
37	Subtract line 36 from line 35. Enter here and on Schedule D or Form 4797. See instructions	

For Paperwork Reduction Act Notice, see separate instructions. Cat. No. 13601R Form **6252** (1997)

Form **6252**

Department of the Treasury
Internal Revenue Service

Installment Sale Income

► See separate instructions. ► Attach to your tax return.
► Use a separate form for each sale or other disposition of property on the installment method.

OMB No. 1545-0228

1997

Attachment Sequence No. 79

Name(s) shown on return: Mark Moore

Identifying number: 222-00-3333

1 Description of property ► Undeveloped land

2a Date acquired (month, day, year) ► 2 / 17 / 90 **b** Date sold (month, day, year) ► 11 / 1 / 97

3 Was the property sold to a related party after May 14, 1980? See instructions. If "No," skip line 4 . . . . ☑ Yes ☐ No

4 Was the property you sold to a related party a marketable security? If "Yes," complete Part III. If "No," complete Part III for the year of sale and the 2 years after the year of sale . . . . ☐ Yes ☑ No

Part I Gross Profit and Contract Price. Complete this part for the year of sale only.

Line	Description	Inner line	Inner amount	Line	Amount
5	Selling price including mortgages and other debts. **Do not** include interest whether stated or unstated			5	14,700
6	Mortgages and other debts the buyer assumed or took the property subject to, but not new mortgages the buyer got from a bank or other source	6	6,500		
7	Subtract line 6 from line 5	7	8,200		
8	Cost or other basis of property sold	8	2,650		
9	Depreciation allowed or allowable	9	-0-		
10	Adjusted basis. Subtract line 9 from line 8	10	2,650		
11	Commissions and other expenses of sale	11	150		
12	Income recapture from Form 4797, Part III. See instructions	12	-0-		
13	Add lines 10, 11, and 12			13	2,800
14	Subtract line 13 from line 5. If zero or less, **stop here. Do not** complete the rest of this form			14	11,900
15	If the property described on line 1 above was your main home, enter from Form 2119 the total of lines 14 and 22, or the amount from line 27, whichever applies. Otherwise, enter -0-			15	-0-
16	**Gross profit.** Subtract line 15 from line 14			16	11,900
17	Subtract line 13 from line 6. If zero or less, enter -0-			17	3,700
18	**Contract price.** Add line 7 and line 17			18	11,900

Part II Installment Sale Income. Complete this part for the year of sale **and** any year you receive a payment or have certain debts you must treat as a payment on installment obligations.

Line	Description	Inner line	Inner amount	Line	Amount
19	Gross profit percentage. Divide line 16 by line 18. For years after the year of sale, see instructions			19	100%
20	**For year of sale only:** Enter amount from line 17 above; otherwise, enter -0-			20	3,700
21	Payments received during year. See instructions. **Do not** include interest whether stated or unstated			21	1,200
22	Add lines 20 and 21			22	4,900
23	Payments received in prior years. See instructions. **Do not** include interest whether stated or unstated	23			
24	**Installment sale income.** Multiply line 22 by line 19			24	4,900
25	Part of line 24 that is ordinary income under recapture rules. See instructions			25	-0-
26	Subtract line 25 from line 24. Enter here and on Schedule D or Form 4797. See instructions			26	4,900

Part III Related Party Installment Sale Income. Do not complete if you received the final payment this tax year.

27 Name, address, and taxpayer identifying number of related party Acme Design W. Main Street Small Town, NY 12899 10-7654321

28 Did the related party, during this tax year, resell or dispose of the property ("second disposition")? . . . ☐ Yes ☑ No

29 **If the answer to question 28 is "Yes," complete lines 30 through 37 below unless one of the following conditions is met. Check only the box that applies.**

a ☐ The second disposition was more than 2 years after the first disposition (other than dispositions of marketable securities). If this box is checked, enter the date of disposition (month, day, year) ► / /

b ☐ The first disposition was a sale or exchange of stock to the issuing corporation.

c ☐ The second disposition was an involuntary conversion where the threat of conversion occurred after the first disposition.

d ☐ The second disposition occurred after the death of the original seller or buyer.

e ☐ It can be established to the satisfaction of the Internal Revenue Service that tax avoidance was not a principal purpose for either of the dispositions. If this box is checked, attach an explanation. See instructions.

Line	Description	Line	Amount
30	Selling price of property sold by related party	30	
31	Enter contract price from line 18 for year of first sale	31	
32	Enter the **smaller** of line 30 or line 31	32	
33	Total payments received by the end of your 1997 tax year. See instructions	33	
34	Subtract line 33 from line 32. If zero or less, enter -0-	34	
35	Multiply line 34 by the gross profit percentage on line 19 for year of first sale	35	
36	Part of line 35 that is ordinary income under recapture rules. See instructions	36	
37	Subtract line 36 from line 35. Enter here and on Schedule D or Form 4797. See instructions	37	

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Form **6252**

Department of the Treasury
Internal Revenue Service

Installment Sale Income

► **See separate instructions.** ► **Attach to your tax return.**
► **Use a separate form for each sale or other disposition of property on the installment method.**

OMB No. 1545-0228

1997

Attachment Sequence No. **79**

Name(s) shown on return: Cora Blue

Identifying number: 095-00-0000

1 Description of property ► Oil painting -- Inheritance

2a Date acquired (month, day, year) ► 7 / 3 / 88 **b** Date sold (month, day, year) ► 12 / 11 / 95

3 Was the property sold to a related party after May 14, 1980? See instructions. If "No," skip line 4. ☐ Yes ☑ No

4 Was the property you sold to a related party a marketable security? If "Yes," complete Part III. If "No," complete Part III for the year of sale and the 2 years after the year of sale ☐ Yes ☐ No

Part I Gross Profit and Contract Price. Complete this part for the year of sale only.

Line	Description		Amount
5	Selling price including mortgages and other debts. **Do not** include interest whether stated or unstated		
6	Mortgages and other debts the buyer assumed or took the property subject to, but not new mortgages the buyer got from a bank or other source		
7	Subtract line 6 from line 5		
8	Cost or other basis of property sold		
9	Depreciation allowed or allowable		
10	Adjusted basis. Subtract line 9 from line 8		
11	Commissions and other expenses of sale		
12	Income recapture from Form 4797, Part III. See instructions		
13	Add lines 10, 11, and 12		
14	Subtract line 13 from line 5. If zero or less, **stop here. Do not** complete the rest of this form		
15	If the property described on line 1 above was your main home, enter from Form 2119 the total of lines 14 and 22, or the amount from line 27, whichever applies. Otherwise, enter -0-		
16	**Gross profit.** Subtract line 15 from line 14		
17	Subtract line 13 from line 6. If zero or less, enter -0-		
18	**Contract price.** Add line 7 and line 17		

Part II Installment Sale Income. Complete this part for the year of sale and any year you receive a payment or have certain debts you must treat as a payment on installment obligations.

Line	Description		Amount
19	Gross profit percentage. Divide line 16 by line 18. For years after the year of sale, see instructions		22.7%
20	**For year of sale only:** Enter amount from line 17 above; otherwise, enter -0-		-0-
21	Payments received during year. See instructions. **Do not** include interest whether stated or unstated		1,806
22	Add lines 20 and 21		1,806
23	Payments received in prior years. See instructions. **Do not** include interest whether stated or unstated	700	
24	**Installment sale income.** Multiply line 22 by line 19		410
25	Part of line 24 that is ordinary income under recapture rules. See instructions		-0-
26	Subtract line 25 from line 24. Enter here and on Schedule D or Form 4797. See instructions		410

Part III Related Party Installment Sale Income. Do not complete if you received the final payment this tax year.

27 Name, address, and taxpayer identifying number of related party

28 Did the related party, during this tax year, resell or dispose of the property ("second disposition")? ☐ Yes ☐ No

29 **If the answer to question 28 is "Yes," complete lines 30 through 37 below unless one of the following conditions is met. Check only the box that applies.**

a ☐ The second disposition was more than 2 years after the first disposition (other than dispositions of marketable securities). If this box is checked, enter the date of disposition (month, day, year) ► / /

b ☐ The first disposition was a sale or exchange of stock to the issuing corporation.

c ☐ The second disposition was an involuntary conversion where the threat of conversion occurred after the first disposition.

d ☐ The second disposition occurred after the death of the original seller or buyer.

e ☐ It can be established to the satisfaction of the Internal Revenue Service that tax avoidance was not a principal purpose for either of the dispositions. If this box is checked, attach an explanation. See instructions.

Line	Description	Amount
30	Selling price of property sold by related party	
31	Enter contract price from line 18 for year of first sale	
32	Enter the **smaller** of line 30 or line 31	
33	Total payments received by the end of your 1997 tax year. See instructions	
34	Subtract line 33 from line 32. If zero or less, enter -0-	
35	Multiply line 34 by the gross profit percentage on line 19 for year of first sale	
36	Part of line 35 that is ordinary income under recapture rules. See instructions	
37	Subtract line 36 from line 35. Enter here and on Schedule D or Form 4797. See instructions	

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Index

B
Basis:
- Adjusted 2
- Assumed mortgage 4
- Installment obligation 9, 10
- Installment sale 2
- Repossessed property 10, 11

Bond 4
Buyer's note 4

C
Contingent sale 6
Contract price 2

D
Deposit received 4
Depreciation recapture income 5
Disposition of installment obligation 9

E
Electing out 3
Escrow account 5

F
Fair market value 4, 10
Figuring installment income 2
Form:
- 4707 13
- 4797 .... 3, 5, 12
- 6252 .... 3, 12
- 8594 7
- Schedule D (Form 1040) 3, 12

G
Gross profit percentage 2
Gross profit, defined 2
Guarantee 4

H
Help from IRS 14

I
Installment obligation:
- Defined 2
- Disposition 9
- Used as security 4

Installment sale basis 2
Interest:
- Escrow account 5
- Income 2
- Reporting 3
- Special rule 2
- Test rate 8
- Unstated 8

L
Like-kind exchange 6

N
Note:
- Buyer's 4
- Third-party 4

P
Payments considered received:
- Buyer assumes debts 4
- Buyer pays seller's expenses 4
- Mortgage assumed 4
- Pledge rule 4

Pledge rule 4
Publications and forms, free 14

R
Related party:
- Land sale 9
- Reporting sale to 3, 12
- Sale to 5

Reporting installment sale 3, 12
Repossession:
- Figuring basis and gain or loss 10
- Former home 11
- Holding period for resale 11
- Personal property 10
- Real property 10
- Worksheet 11

S
Sale of:
- Business 7
- Dealer 2
- Farm 8
- Home 3
- Land between related parties 9
- Partnership interest 7
- Repossessed home 11
- Several assets 6, 12
- Stock or securities 2

Selling expenses 2
Selling price:
- Defined 2
- Reduced 2

Single sale of several assets 6, 12

T
Test rate of interest 8
Third-party note 4

U
Unstated interest 8

■

Tax Publications for Individual Taxpayers

General Guides

1 Your Rights as a Taxpayer
17 Your Federal Income Tax (For Individuals)
225 Farmer's Tax Guide
334 Tax Guide for Small Business
509 Tax Calendars for 1998
553 Highlights of 1997 Tax Changes
595 Tax Highlights for Commercial Fishermen
910 Guide to Free Tax Services

Specialized Publications

3 Armed Forces' Tax Guide
378 Fuel Tax Credits and Refunds
463 Travel, Entertainment, Gift, and Car Expenses
501 Exemptions, Standard Deduction, and Filing Information
502 Medical and Dental Expenses
503 Child and Dependent Care Expenses
504 Divorced or Separated Individuals
505 Tax Withholding and Estimated Tax
508 Educational Expenses
514 Foreign Tax Credit for Individuals
516 U.S. Government Civilian Employees Stationed Abroad
517 Social Security and Other Information for Members of the Clergy and Religious Workers
519 U.S. Tax Guide for Aliens
520 Scholarships and Fellowships
521 Moving Expenses
523 Selling Your Home
524 Credit for the Elderly or the Disabled
525 Taxable and Nontaxable Income
526 Charitable Contributions
527 Residential Rental Property
529 Miscellaneous Deductions
530 Tax Information for First-Time Homeowners
531 Reporting Tip Income
533 Self-Employment Tax
534 Depreciating Property Placed in Service Before 1987
537 Installment Sales
541 Partnerships
544 Sales and Other Dispositions of Assets
547 Casualties, Disasters, and Thefts (Business and Nonbusiness)
550 Investment Income and Expenses
551 Basis of Assets
552 Recordkeeping for Individuals
554 Older Americans' Tax Guide
555 Federal Tax Information on Community Property
556 Examination of Returns, Appeal Rights, and Claims for Refund
559 Survivors, Executors, and Administrators
561 Determining the Value of Donated Property
564 Mutual Fund Distributions
570 Tax Guide for Individuals With Income From U.S. Possessions
575 Pension and Annuity Income
584 Nonbusiness Disaster, Casualty, and Theft Loss Workbook
587 Business Use of Your Home (Including Use by Day-Care Providers)
590 Individual Retirement Arrangements (IRAs) (Including SEP-IRAs and SIMPLE IRAs)
593 Tax Highlights for U.S. Citizens and Residents Going Abroad
594 Understanding the Collection Process
596 Earned Income Credit
721 Tax Guide to U.S. Civil Service Retirement Benefits
901 U.S. Tax Treaties
907 Tax Highlights for Persons with Disabilities
908 Bankruptcy Tax Guide
911 Direct Sellers
915 Social Security and Equivalent Railroad Retirement Benefits
919 Is My Withholding Correct for 1998?
925 Passive Activity and At-Risk Rules
926 Household Employer's Tax Guide
929 Tax Rules for Children and Dependents
936 Home Mortgage Interest Deduction
946 How To Depreciate Property
947 Practice Before the IRS and Power of Attorney
950 Introduction to Estate and Gift Taxes
967 IRS Will Figure Your Tax
968 Tax Benefits for Adoption
1542 Per Diem Rates
1544 Reporting Cash Payments of Over $10,000
1546 The Problem Resolution Program of the Internal Revenue Service

Spanish Language Publications

1SP Derechos del Contribuyente
579SP Cómo Preparar la Declaración de Impuesto Federal
594SP Comprendiendo el Proceso de Cobro
596SP Crédito por Ingreso del Trabajo
850 English-Spanish Glossary of Words and Phrases Used in Publications Issued by the Internal Revenue Service
1544SP Informe de Pagos en Efectivo en Exceso de $10,000 (Recibidos en una Ocupación o Negocio)

Commonly Used Tax Forms

1040 U.S. Individual Income Tax Return
Sch A Itemized Deductions
Sch B Interest and Dividend Income
Sch C Profit or Loss From Business
Sch C-EZ Net Profit From Business
Sch D Capital Gains and Losses
Sch E Supplemental Income and Loss
Sch EIC Earned Income Credit
Sch F Profit or Loss From Farming
Sch H Household Employment Taxes
Sch R Credit for the Elderly or the Disabled
Sch SE Self-Employment Tax
1040EZ Income Tax Return for Single and Joint Filers With No Dependents
1040A U.S. Individual Income Tax Return
Sch 1 Interest and Dividend Income for Form 1040A Filers
Sch 2 Child and Dependent Care Expenses for Form 1040A Filers
Sch 3 Credit for the Elderly or the Disabled for Form 1040A Filers
1040-ES Estimated Tax for Individuals
1040X Amended U.S. Individual Income Tax Return
2106 Employee Business Expenses
2106-EZ Unreimbursed Employee Business Expenses
2119 Sale of Your Home
2210 Underpayment of Estimated Tax by Individuals, Estates and Trusts
2441 Child and Dependent Care Expenses
2848 Power of Attorney and Declaration of Representative
3903 Moving Expenses
4562 Depreciation and Amortization
4868 Application for Automatic Extension of Time To File U.S. Individual Income Tax Return
4952 Investment Interest Expense Deduction
5329 Additional Taxes Attributable to Qualified Retirement Plans (Including IRAs), Annuities, and Modified Endowment Contracts
6251 Alternative Minimum Tax–Individuals
8283 Noncash Charitable Contributions
8582 Passive Activity Loss Limitations
8606 Nondeductible IRAs (Contributions, Distributions, and Basis)
8822 Change of Address
8829 Expenses for Business Use of Your Home