1999

Department of the Treasury
Internal Revenue Service

Instructions for Form 6252

Installment Sale Income

Section references are to the Internal Revenue Code unless otherwise noted.

General Instructions

Changes To Note

The Tax Relief Extension Act of 1999 made the following changes, which are effective for sales after December 16, 1999.

- Generally, the installment method may not be used if the sale would otherwise be reported using the accrual method. However, the installment method still applies to sales of farm property.
- For purposes of the pledge rule, an installment obligation is treated as if you had directly pledged it as security on a debt to the extent an arrangement allows you to satisfy all or part of the debt with the installment obligation.

Purpose of Form

Use Form 6252 to report income from casual sales of real or personal property (other than inventory) if you will receive any payments in a tax year after the year of sale.

Do not use Form 6252 to report sales after 1986 of stock or securities traded on an established securities market. Treat all payments from these sales as received in the year you sold the stock.

Do not use Form 6252 if you elect not to report the sale on the installment method. To elect out, report the full amount of the gain on a timely filed return (including extensions), using **Form 4797,** Sales of Business Property, or the **Schedule D** for your return, whichever applies. Generally, once you file Form 6252, you cannot later elect out of the installment method. However, if your original return was filed on time, you may make the election on an amended return filed no later than 6 months after the due date of your return, excluding extensions. Write "Filed pursuant to section 301.9100-2" at the top of the amended return, and file it at the same address you used for your original return.

Which Parts To Complete

For the year of sale. Complete lines 1 through 26.

For years after the year of sale. Complete lines 1 through 4, and Part II, for any year you receive a payment from an installment sale.

Related party sales. If you sold marketable securities to a related party (defined below), complete Form 6252 for each year of the installment agreement, even if you did not receive a payment. For any year after the year of sale, complete lines 1 through 4, and Part III. If you received a payment, also complete Part II. If you sold property other than marketable securities to a related party, complete Form 6252 for the year of sale and for 2 years after the year of sale even if you did not receive a payment. If during this 2-year period you did not receive an actual or deemed payment, complete lines 1 through 4, and Part III. After this 2-year period, see **For years after the year of sale** above.

Special Rules

Interest. If any part of an installment payment you received is for interest, report that interest on the appropriate form or schedule. **Do not** report interest received, carrying charges received, or unstated interest on Form 6252. See **Pub. 537,** Installment Sales, for details on unstated interest.

Installment sales to related party. A special rule applies to a first disposition (sale or exchange) of property under the installment method to a related party who then makes a second disposition (sale, exchange, gift, or cancellation of installment note) before making all payments on the first disposition. For this purpose, a **related party** includes your spouse, child, grandchild, parent, brother, sister, or a related corporation, S corporation, partnership, estate, or trust. See section 453(f)(1) for more details.

Under this rule, treat part or all of the amount the related party realized (or the fair market value (FMV) if the 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. Figure the gain, if any, on lines 30 through 37. This rule does not apply if any of the conditions listed on line 29 are met.

Sale of depreciable property to related person. Generally, if you sell depreciable property to a related person (as defined in section 453(g)(3)), you may not report the sale using the installment method. For this purpose, depreciable property is any property that can be depreciated by the person or entity to whom you transfer it. However, you may use the installment method if you can show to the satisfaction of the IRS that avoidance of Federal income taxes was not one of the principal purposes of the sale (e.g., no significant tax deferral benefits will result from the sale). If the installment method does not apply, report the sale on Schedule D or Form 4797, whichever applies. Treat all payments you will receive as if they were received in the year of sale. Use FMV for any payment that is contingent as to amount. If the FMV cannot be readily determined, basis is recovered ratably.

Pledge rule. If an installment obligation from a nondealer disposition of real property used in a trade or business or held for the production of rental income with a sales price over $150,000 is pledged as security on debt after December 17, 1987, treat the net proceeds of the secured debt as a payment on the installment obligation. This rule also applies to the disposition of any property under the installment method after 1988 with a sales price over $150,000, except for farm property and personal use property disposed of by an individual.

The pledge rule does not apply to pledges made after December 17, 1987, if the debt is incurred to refinance the principal amount of a debt that was outstanding on December 17, 1987, AND was secured by nondealer real property installment obligations on that date and at all times after that date until the refinancing occurred. However, this exception does not apply to the extent that the principal amount of the debt resulting from the refinancing exceeds the principal amount of the refinanced debt immediately before the refinancing. Also, the pledge rule does not affect refinancing due to the calling of a debt by the creditor as long as the debt is then refinanced by a person other than this creditor or someone related to the creditor.

An installment obligation is pledged as security on a debt to the extent that payment of principal and interest on the debt is directly secured by any interest in the installment obligation. The amount treated as a payment cannot exceed the excess of the total contract price over any payments received under the contract before the secured debt was obtained.

Interest on deferred tax. Generally, interest must be paid on the deferred tax related to any obligation that arises during a tax year from the disposition of property under the installment method if:

- The property had a sales price over $150,000, **and**
- The aggregate balance of all nondealer installment obligations arising during, and outstanding at the close of, the tax year is more than $5 million.

Interest must be paid in subsequent years if installment obligations, which originally required interest to be paid, are still outstanding at the close of a tax year.

These rules **do not** apply to dispositions of:

- Farm property,
- Personal use property by an individual,
- Real property in tax years beginning before 1988, or
- Personal property before 1989.

How to report the interest. The interest is not figured on Form 6252. See section 453A to figure the interest. Enter the interest as an additional tax on your tax return. Include it in the amount to be entered on the total tax line after credits and other taxes. For individuals, this is line 56 of the 1999 Form 1040. For corporations, it is line 12 of Schedule J (Form 1120). Write "Section 453A(c) interest" to the left of the amount.

Corporations may deduct the interest in the year it is paid or accrued. For individuals and other taxpayers, this interest is not deductible.

Additional Information

See Pub. 537 for additional information, including details about reductions in selling price, the single sale of several assets, like-kind exchanges, dispositions of installment obligations, and repossessions.

Specific Instructions

Part I—Gross Profit and Contract Price

Line 5. Enter the total of any money, face amount of the installment obligation, and the FMV of other property that you received or will receive in exchange for the property sold. Include on line 5 any existing mortgage or other debt the buyer assumed or took the property subject to.

If there is no stated maximum selling price, such as in a contingent sale, attach a schedule showing the computation of gain. Enter the taxable part on line 24 and also on line 35 if Part III applies. See Temporary Regulations section 15A.453.

Line 6. Enter only mortgages or other debts the buyer assumed from the seller or took the property subject to. **Do not** include new mortgages the buyer gets from a bank, the seller, or other sources.

Line 8. Enter the original cost and other expenses you incurred in buying the property. Add the cost of improvements, etc., and subtract any diesel-powered highway vehicle credit, enhanced oil recovery credit, disabled access credit, or casualty losses previously allowed. For details, see **Pub. 551**, Basis of Assets.

Line 9. Enter all depreciation or amortization you deducted or should have deducted from the date of purchase until the date of sale. Add any section 179 expense deduction; the downward basis adjustment under section 50(c) (or the corresponding provision of prior law); the deduction for qualified clean-fuel vehicle property or refueling property; deductions claimed under section 190, 193, or 1253(d)(2) or (3) (as in effect before the enactment of P.L. 103-66); and the basis reduction for the qualified electric vehicle credit. Subtract any investment tax credit recapture amount if the basis of the property was reduced under section 50(c) (or the corresponding provision of prior law); any section 179 or 280F recapture amount included in gross income in a prior tax year; any qualified clean-fuel vehicle property or refueling property deduction you were required to recapture because the property ceased to be eligible for the deduction; and any basis increase for qualified electric vehicle recapture. **Do not** include on this line any section 179 expense deduction for a partnership or an S corporation that passed through the deduction to its partners or shareholders.

Line 11. Enter sales commissions, advertising expenses, attorney and legal fees, etc., in selling the property.

Line 12. Any ordinary income recapture under section 1245 or 1250 (including sections 179 and 291) is fully taxable in the year of sale even if no payments were received. To figure the recapture, complete Form 4797, Part III. The ordinary income recapture is the amount on line 31 of Form 4797. Enter it on line 12 of Form 6252 and also on line 13 of Form 4797. **Do not** enter any gain for this property on line 32 of Form 4797. If you used Form 4797 only to figure the recapture on line 12 of Form 6252, enter "N/A" on line 32 of Form 4797.

Line 15. If the property described on line 1 was your main home, you may be able to exclude part or all of your gain. See **Pub. 523,** Selling Your Home, for details.

Part II—Installment Sale Income

Line 19. Enter the gross profit percentage determined for the year of sale even if you did not file Form 6252 for that year.

Line 21. Enter all money and the FMV of any property you received in 1999. Include as payments any amount withheld to pay off a mortgage or other debt, such as broker and legal fees. **Do not** include the buyer's note, any mortgage, or other liability assumed by the buyer. If you did not receive any payments in 1999, enter zero. If in prior years an amount was entered on the equivalent of line 32 of the 1999 form, **do not** include it on this line. Instead, enter it on line 23. See **Pledge rule** on page 1 for details about proceeds of debt secured by installment obligations that must be treated as payments on installment obligations.

Line 23. Enter all money and the FMV of property you received before 1999 from the sale. Include allocable installment income and any other deemed payments from prior years.

Line 25. Enter here and on Form 4797, line 15, any ordinary income recapture on section 1252, 1254, or 1255 property for the year of sale or all remaining recapture from a prior year sale. **Do not** enter ordinary income from a section 179 expense deduction. If this is the year of sale, complete Form 4797, Part III. The amount from line 27c, 28b, or 29b of Form 4797 is the ordinary income recapture. **Do not** enter any gain for this property on line 31 or 32 of Form 4797. If you used Form 4797 only to figure the recapture on line 25 or 36 of Form 6252, enter "N/A" on lines 31 and 32 of Form 4797.

Also report on this line any ordinary income recapture remaining from prior years on section 1245 or 1250 property sold **before** June 7, 1984.

Do not enter on line 25 more than the amount shown on line 24. The excess **must** be reported in future years on Form 6252 up to the taxable part of the installment sale until all of the recapture has been reported.

Line 26. For trade or business property held more than 1 year, enter this amount on Form 4797, line 4. If the property was held 1 year or less, or if you have an ordinary gain from a noncapital asset (even if the holding period is more than 1 year), enter this amount on Form 4797, line 10, and write "From Form 6252."

For capital assets, enter this amount on Schedule D as a short- or long-term gain. Use the lines identified as from Form 6252.

Part III—Related Party Installment Sale Income

Line 29. If one of the conditions is met, check the appropriate box. Skip lines 30 through 37. If you checked box 29e, attach an explanation. Generally, the nontax avoidance exception will apply to the second disposition if:

- The disposition was involuntary (e.g., a creditor of the related person foreclosed on the property, or the related person declared bankruptcy), or
- The disposition was an installment sale under which the terms of payment were substantially equal to or longer than those for the first sale. However, the resale terms must not permit significant deferral of recognition of gain from the first sale (e.g., amounts from the resale are being collected sooner).

Line 30. If the related party sold all or part of the property from the original sale in 1999, enter the selling price of the part resold. If part was sold in an earlier year and part was sold this year, enter the cumulative amount of the selling price.

Line 33. If you completed Part II, enter the sum of lines 22 and 23. Otherwise, enter all money and the FMV of property you received before 1999 from the sale. Include allocable installment income and any other deemed payments from prior years. **Do not** include interest whether stated or unstated.

Line 36. See the instructions for line 25 above. **Do not** enter on line 36 more than the amount shown on line 35. The excess **must** be reported in future years on Form 6252 up to the taxable part of the installment sale until all of the recapture has been reported.

Line 37. See the instructions for line 26 above.