Income Forecast Method

- Basis may be recovered using the income forecast method
  - This applies where income forecast method was used to depreciate the property sold

Depreciation Recapture

- All recapture must be recognized in the year of sale
- Section 1245 gain
- Section 1250 gain
Disposition of Installment Obligations

- Gain or loss recognized upon sale
  - Amount realized
    - Sales price
    - FMV of the installment obligation

- Basis of the installment obligation
  - Excess of the face value over the amount recognizable as income if obligation satisfied in full

These rules apply to –

- Sales
- Gifts
- Distributions from a corporation to a shareholder
Disposition of Installment Obligations

- Rules do not apply to –
  - Transfer to a spouse
  - Transfer at death
  - Transfer from an estate to its beneficiaries

- Cancellation or unenforceability
  - Obligation treated as if it were disposed of in a transaction other than a sale or exchange

- The following are not taxable dispositions –
  - Section 351 transaction
  - Tax free reorganization
  - Contribution of installment note to partnership
  - Distribution of installment note to partner from partnership
  - Section 332 liquidation
### Interest on Deferred Tax Liability

**General rule**

- Interest on deferred tax liability applies to all sales reported on the installment method

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### Interest on Deferred Tax Liability

**Interest on deferred tax liability not applicable where** –

- Sales price is not more than $150,000
- Total installment receivables are less than $5,000,000
- Property sold by an individual was used for personal purposes
- Property used in a farming business

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### Interest on Deferred Tax Liability

**How in the interest calculated?**

- Calculated on notes in excess of $150,000

  - Calculation –
    - Applicable percentage of the deferred tax
    - Multiplied by
    - Underpayment rate

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### Interest on Deferred Tax Liability

**Applicable percentage**

- Divide the aggregate amount of all notes (over $150,000) in excess of $5,000,000
- By
- The aggregate amount of all notes (over $150,000)

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### Interest on Deferred Tax Liability

**Deferred tax liability**

- Deferred gain
- Multiplied by
- Maximum tax rate