



TaxFreeYou

Installment Sale Trust GUIDE

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To See all of the Real Estate Services I provide go to: www.GreggPerrah.com

Protecting *Your* Financial Future

When selling an appreciated asset you will have a gain that will need to be taxed **BUT** you can **choose** when to have that gain taxed.

If you choose an Installment Sale Trust (**IST**), you can defer the payment of taxes.

What deferring your gains can mean to you:

- Using an **IST**, you will have **100%** of the net sales proceeds to invest.
- If you don't use an **IST**, you will only have **67%**¹ of the proceeds (after taxes) to invest.

Example – \$1,000,000 in gains from your sale at 6% annual return on invested proceeds:



- ▶ If you use an IST to defer your gains, your income can be **\$60,000/yr** from the investable proceeds ($\$1,000,000 \times 6\%$)
- ▶ If your gain is taxed, your income will be **\$40,200/yr** from the investable proceeds ($\$670,000 (1,000,000 \times 67\%) \times 6\%$)
- ▶ **\$19,800/yr** (approximately a 50% increase) is the additional income available to you from using an IST.

¹ Based on Federal and California tax rates. If you live elsewhere, your taxes may yield a different result.

Who can benefit?

Anyone who is considering selling their:

- ▶ Residential Property
- ▶ Commercial (Investment) Property:
 - Replacing a 1031 Exchange
 - As a safety net for a 1031 Exchange - should your 1031 Exchange fail, an Installment Sale Trust can protect you from having to pay capital gains taxes. Cost of safety net would be 1% or less of the total transaction price.
- ▶ Business

Do you own a business you would like to sell but the capital gains tax is holding you back from selling? Especially if you have started your business from scratch, or grown your business over time and it is worth a lot more now, the capital gains tax can be enormous! As you may know you cannot use a 10-31 exchange to defer the taxes of the sale of a business.

However you CAN USE an Installment Sales Trust to defer the proceeds from the sale of a business.

The Benefits of an Installment Sales Trust

- ▶ *No Capital Gains Tax Due At Sale*

With an IST, by putting your property in the trust, it allows the transaction to be tax-deferred, thus saving you money.

- ▶ *Steady Income*

You want to enjoy your retirement and spend it doing the things you love and in order to do so, you need a steady income. With an IST, you will be able to leave behind your duties of being a landlord, all while investing in items such as guaranteed annuities, which will generate you more income on a steady basis.

- ▶ *Installment Sale Trust Income Can be Passed Onto Future Generations*

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- ▶ *Get Rid of Your Property and the Stress of Being a Landlord*

Dealing with tenants, vacancies, and bounced checks are just a few of the hassles that come along with being a landlord. By selling your property through an IST, you can relieve yourself of the stress and enjoy a relaxing lifestyle.

INSTALLMENT SALES TRUSTS

Example of a Sale

	NO INSTALLMENT SALES TRUST	USING INSTALLMENT SALES TRUST	GAIN FROM USING TRUST	% GAIN
Sale of asset	<u>\$2,560,000</u>	<u>\$2,560,000</u>		
Cost of asset	350,000	350,000		
Improvements	<u>75,000</u>	<u>75,000</u>		
Basis	425,000	425,000		
Expense of sale <small>INCLUDING COMMISSION</small>	<u>135,000</u>	<u>135,000</u>		
Capital gains	2,000,000	2,000,000		
Capital gains taxes	<u>732,341</u>			
Net investable proceeds	<u>\$1,267,659</u>	<u>\$2,000,000</u>	<u>\$732,321</u>	
Return at 6%	<u><u>\$76,060</u></u>	<u><u>\$120,000</u></u>	<u><u>\$43,940</u></u>	57.77%

¹ assumes your other income is \$150,000

² assumes IRS CG bracket \$479,000

³ assumes CA income tax rates

FAQ's

Who Can Apply For An IST?

Anyone who owns a primary residence, business building, commercial real estate or investment real estate, you may qualify for an Installment Sale Trust.

Who Is Involved In An IST?

Just like in any other situation regarding selling real estate, a buyer and a seller are involved. But in an Installment Sale Trust, a third-party fiduciary trustee is chosen to manage it.

Why Should I Get An IST?

When you sell your property the traditional way, the **tax on your capital gains** can be insurmountable. Due to the depreciation that is taken over the years, it allows for Uncle Sam and the State to take anywhere between 25%-37% of your **capital gains**.

If you consider doing a **1031 Exchange**, it may seem like a promising option, but only if you're looking for a new property after yours sells. Even with this option there are stipulations--you have 45 days to find a replacement property and then 180 days to close that property.

You can also ultimately decide to stay a landlord and endure all the hardships and challenges of owning rental properties.

An Installment Sale Trust is the **ONLY** option that allows you to have a steady guaranteed income for years to come, after selling your property. This income can also be inherited by the next generation, so your investments will live on.

INSTALLMENT SALES TRUSTS

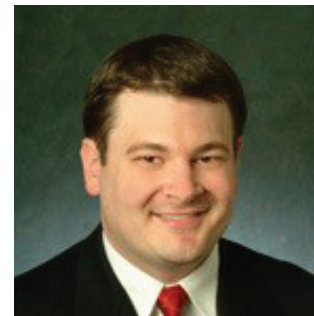
Who We Are

CB Administrative Services, LLC – Principal, **W. Morris Chubb**, CPA (inactive) and CFO of public, venture backed and private companies for 40+ years. Throughout his career, Morris has been committed to transparency, accountability and integrity. He is also active in the nonprofit space and is board chair of Project WeHOPE, a nonprofit that provides shelter and other needed services to the homeless in East Palo Alto and other locations around Northern California.



W. Morris Chubb

Lathrop Gage LLP – Partner, **Phillip K. Johnson**, with 20 years in private practice focusing on estate and tax planning, including the creation and administration of trusts. Phillip specializes in saving taxes and preserving wealth through techniques such as Installment Sale Trusts. Lathrop Gage LLP has 10 offices from coast to coast, including one in Los Angeles.



Philip K. Johnson

Qualified Financial – Principal, **Kevin Brunner**, a Financial Advisor featured in Forbes Magazine, has 15+ years in financial services with a special focus on business owners and real estate investors and 29+ years of business consulting and management experience. He is the host of "The Smart Money Hour" on KABC Radio Los Angeles and is frequently a requested expert on Bloomberg Radio.

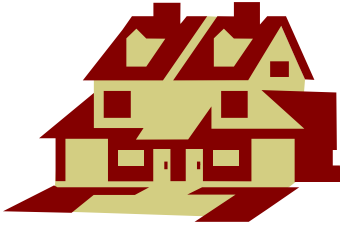


Kevin Brunner

Exit Strategy Case Study #1

John and Betty Smith are 65 years old and have a rental property that is totally paid for. This rental gives them about \$1,000.00 per month in income, but John and Betty are done with Tenants and the endless repairs.

They would rather enjoy retirement and have the ability to travel and visit their kids and grandkids.



John and Betty's CA Rental:

Bought 1990 for \$100,000.00

Currently worth \$500,000.00

Tax @ Sale : \$100,000.00 (est.)

Net-Net Income after Expenses
of : \$12,000.00 / yr



**'Greater
Income
Stream'**

Exit Strategy:

Sell Rental for \$500,000.00

Pay NO GAINS TAX year of Sale

Buy \$100,000.00 RV for Cash with Sale Proceeds.

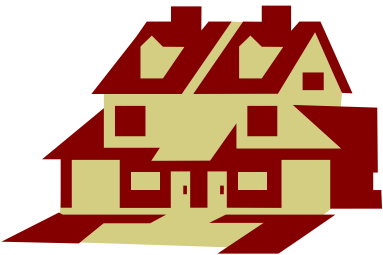
**Receive Income of \$27,000.00/yr
beginning 1 year after sale**

John and Betty are able to get rid of the hassle of owning their rental, are able to buy a large RV for cash and STILL have more than double the cash flow.

Exit Strategy Case Study #2

Rick and Jane Smith are 65 years old and have a 50% interest in an apartment building that is going to be sold. Rick has little in retirement accounts and has always worked for a commission. This apartment building is a large part of their retirement income.

Rick and Jane would like to increase their retirement income and arrange for an inheritance for their kids while paying as little tax as possible.



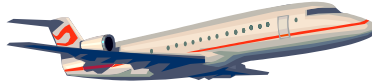
Rick and Jane's Apartments:

Bought 1996 for \$1,000,000.00

Currently worth \$3,000,000.00
@ 6% Cap Rate

Tax @ Sale : \$500,000.00 (est.)

50% of Net Income after debt
and management of :
\$60,000.00 / yr



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Exit Strategy:

Sell for \$3,000,000.00

Rick and Jane Collect: \$1,250,000.00
(after debt retired)

Pay Capital Gains Tax owed over 21 years instead of
all during year of sale.

Go on a \$25,000.00 vacation to Europe after the sale.

Set aside \$250,000.00 as an inheritance.

Immediately receive income of \$107,000.00/yr

**Rick and Jane now have No Debt, No Worries, a very nice Trip to Europe
AND almost Double the Income.**

Exit Strategy Case Study #3

Steve and Cathy Smith are 55 years old and have a Commercial building with multiple tenants that is the perfect investment, but Steve and Cathy are open to receiving a higher income with less risk. Steve and Cathy have a great real estate portfolio, but this Commercial Building has been fully depreciated and they would like to see tax-advantaged growth. If they sell any of their buildings, it would be this commercial building.



Steve & Cathy's Building:

Bought 1990 for \$1,000,000.00

Currently worth \$5,000,000.00
@ 6% Cap Rate

Tax + Recapture Costs @ Sale:
\$1,500,000.00 (est.)

Net Income after debt and
management of:
\$170,000.00 / yr



+

**‘Greater
Income
Stream’**

Exit Strategy: Sell for \$5,000,000.00

Steve & Cathy Collect: \$4,250,000.00
(after debt retired)

Pay NO GAINS TAX for 5 years but have \$250,000.00
per year available to have income and to help pay for
College for 2 children. Part used to acquire vacation
home in Costa Rica.

**At Age 60 receive lifetime payments of
\$253,000.00 per year**

Save approximately \$2.5 Million in Estate Tax

Steve & Cathy now have substantially greater income for their lifetime and the additional cash on hand to pay for college expenses and a vacation home. They have reduced the amount owed the government upon their demise by a small fortune as well!



ADMINISTRATIVE SERVICES, LLC

FACT FINDER

Dated: _____

Your Name: _____

Date of Birth: _____

Your Spouse's Name: _____

Date of Birth: _____

Home Address: _____
Street City State ZIP

Email: _____

Phone Number: _____ Cell _____ Land line _____

Property Type: Personal Residence Investment Property Collectible Business

Property Address or Business Name: _____

Status of Property: Not listed Listed Under Contract In Escrow

Date Property Acquired: _____ If Residence, years of Occupancy _____

Who Holds Title: Applicant H/W Joint Tenancy

Trust* Partnership* LLC* LLP* S-Corp* *percent ownership _____

Market Value: _____ Commission %: _____

Cost Basis including additions, improvements and prep costs for sale: _____

Depreciation Deducted on Past Years Tax Returns: _____

Total \$ of Mortgage(s), Line of Credits, etc. on the property: _____

Use of Proceeds: If you buying a new residence, where? _____

a) Estimated total cost: _____

b) Down Payment on new residence: _____

c) Additional cash wanted from this sale: _____

Balance of sales proceeds less b) and c) will be invested.

Annual Household Income Exclusive of the Property for Sale _____

X _____

Signature required – facts above represent my understanding of my situation and I am requesting a CBAS estimate of what an Installment Sale Trust might mean based on these facts.



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