Professionals Hub · For Real Estate Agents & Brokers

The Structured Installment Sale

A practical guide to a tax-deferral tool that keeps deals alive, protects your commission, and sets you apart — written for the way Realtors actually work.

Structured Installment Sale Resource Center

Reading level

Plain English Practitioner + Citations

What's Inside

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What an SIS Is — In Plain Terms

SIS Realtor — Overview

When your seller closes on a property with a big gain, the default is a **lump sum**: all the money arrives at once, and the entire taxable gain lands in that single tax year. For a highly appreciated property, that can push the seller into the top brackets and trigger extra taxes that wouldn't otherwise apply.

A **Structured Installment Sale (SIS)** changes the timing. Instead of taking everything at closing, the seller chooses to receive part of the proceeds as a **series of scheduled payments** over future years. Because the tax law lets gain be reported *as payments come* *in* rather than all up front, the seller spreads the tax bill across many years instead of absorbing it all at once.

The payments are **guaranteed and funded at closing** — typically backed by a highly rated annuity issued by a life insurance company — so the seller isn't waiting on the buyer or carrying the buyer's note. The buyer pays normally; a third party stands behind the future payments.

The one-sentence version

An SIS lets a seller turn a one-time tax hit into a smoothed-out stream — trading a lump sum for guaranteed future payments, and a single giant tax year for many smaller ones.

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Why It Matters to You

This isn't an abstract tax topic — it's a tool that directly affects whether your deals close and how you're positioned with high-value clients.

1. It saves the deal that taxes would otherwise kill

You've heard it: *"I'd sell, but the taxes would eat me alive."* That objection ends listings before they start and collapses deals at the negotiating table. A seller staring at a combined federal-plus-state-plus-NIIT bill north of 30% on a large gain may simply walk — or hold the property indefinitely. The SIS gives that seller a real reason to move forward. **A deal that closes pays a commission; a deal that dies pays nothing.**

2. Your commission is paid in full, at closing

This is the part agents most often get wrong out of caution: an SIS does **not** mean you wait for your money. The deferral is funded out of the *seller's* net proceeds. Your commission, closing costs, and payoffs are all settled at closing exactly as they always are. **You are paid in full, on the closing date, in cash.** Only the seller's chosen portion is structured forward.

3. It makes you the agent who brings solutions

Most agents can list and market. Far fewer can sit across from a sophisticated seller, recognize a tax problem, and point toward a real answer. Simply *raising* the SIS — and knowing when to bring in the specialist — signals that you operate at a higher level. That reputation wins listings and referrals.

4. It builds a referral flywheel

SIS deals naturally involve CPAs, attorneys, and financial advisors. Being the agent who knows this tool puts you in the room with those professionals — and they send clients to people who make them look good.

The listing-tool insight

The most valuable use of the SIS isn't the deals you're already working — it's the listings you *aren't getting* because owners of highly appreciated property won't sell. The SIS converts "I can't afford to sell" into "Tell me more."

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How It Happens in the Deal

The single most important rule

An SIS must be **set up before closing**. Once the seller has the unrestricted right to the full proceeds — at or after closing — it is too late. This is why your early recognition matters more than anything else in this guide.

The sequence

- **Early flag (your job).** During listing or early negotiation, you recognize a large, embedded gain and raise the possibility with the seller.
- **Specialist + the seller's CPA engaged.** An SIS specialist designs the structure; the seller's own CPA or attorney reviews it against the seller's full tax picture.
- **Terms designed.** The seller decides how much to take in cash at closing versus how much to structure, and over what period (e.g., 10, 20, or 30 years).
- **Contract provisions added.** The purchase agreement and assignment documents reflect the installment obligation — *before* signing/closing.
- **Closing.** The buyer pays the full price in cash as normal. Commissions, costs, and payoffs are settled. The deferred portion is routed to the funding company, which issues the funding (typically an annuity).
- **Scheduled payments.** The seller receives guaranteed payments on the agreed schedule, reporting gain as each payment arrives.

The buyer barely notices

A common worry: "Will my buyer balk?" Generally, no. The buyer is **not** carrying a note or making installment payments to the seller. The buyer pays the agreed price in cash at closing; the structuring happens on the seller's side of the settlement statement. The buyer is largely indifferent.

What about the seller's mortgage?

Almost every property carries a loan, so this comes up constantly. At closing, the **mortgage is paid off from the proceeds exactly as it always is** — nothing changes there. Only the seller's **net equity** — what's left after the loan payoff, your commission, and closing costs — is available to structure. The seller can put some or all of that net equity into the SIS.

One thing to flag early: if the loan being paid off is **larger than the seller's remaining tax basis** in the property, the excess can count as money received in the year of sale and trigger some gain up front. It doesn't disqualify the SIS, but it's exactly why a specialist should run the numbers before terms are set.

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What the Seller Gains

- **Tax deferral.** Gain is taxed as payments arrive, not all in the year of sale — the seller keeps more money working for longer.
- **Bracket smoothing.** Spreading the gain across years can keep the seller out of the highest capital-gains bracket that a single-year spike would trigger.
- **Avoiding extra surtaxes.** Smoothing income can help the seller stay under thresholds that trigger the 3.8% net investment income tax and other phase-outs.
- **A predictable income stream.** Guaranteed scheduled payments — attractive for retiring sellers, estate planning, or anyone who prefers income over a lump sum.
- **No reinvestment pressure.** Unlike a 1031, the seller doesn't have to find and close a replacement property on a deadline (more on that next).
- **State tax relief, too.** In high-tax states, the same spreading can soften the state bill — and a seller who relocates to a lower- or no-tax state during the payment years may change what applies to later payments. (See the Resource Center's State Tax Center; this is state-specific and one for the specialist and CPA.)

Tax Lump Sum One huge year, Structured Installment Sale — spread across years Smaller, smoother years Illustrative only. Same total gain — a lump sum concentrates tax in one top-bracket year; an SIS spreads it into smaller annual slices. Actual results depend on the seller's full tax picture.

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SIS vs. the 1031 Exchange

Every Realtor knows the 1031 exchange, so it's the best anchor for understanding the SIS. The simplest distinction: a **1031 keeps your seller *in* real estate; an SIS helps your seller get *out***.

	1031 Exchange	Structured Installment Sale
Seller's goal	Stay invested in real estate	Exit and convert to income/cash
Replacement property	Required	None — nothing to find or buy
Deadlines	45 days to identify, 180 to close	No replacement clock
What happens to tax	Deferred indefinitely (potential step-up at death)	Spread out and paid over the payment years
Result for seller	Owns a different property	Receives a guaranteed income stream
Ongoing management	Still a landlord/owner	Out of the property entirely

When the SIS is the better fit

- **The seller wants *out*,** not into another property — retiring, simplifying, or done being a landlord.
- **A 1031 failed or only partly worked.** If a seller can't find a replacement in time, or ends up with *boot* (leftover taxable cash), an SIS can catch that taxable piece.

- **Liquidity and income matter more than property.** The seller wants predictable cash flow, not more real estate.
- **Smaller deals** where the cost and complexity of a 1031 replacement aren't worth it.

They can work together

These aren't mutually exclusive. A seller might 1031 the bulk into a replacement property and use an SIS to absorb the leftover taxable boot — getting the best of both. Knowing both tools makes you the agent who can actually solve the problem in front of you.

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By Specialty

There's no one-size-fits-all here. The SIS applies across property types, but the *details that matter* change with your specialty. Find yours below.

Residential

Single-family, condos, townhomes, 2–4 unit multifamily, vacation & second homes

Residential sellers have one advantage no other specialty gets — the home-sale exclusion. The winning move is almost always to ***exclude first, then structure the rest.***

A married couple can take **up to $500,000 of gain tax-free** on a primary residence ($250,000 single). But in long-appreciated markets, a home bought decades ago can carry $900K, $1.5M, even $2M of gain. The exclusion clears the first slice; everything above it is fully taxable in the year of sale unless it's spread. That gap is the SIS opening — and it's invisible to most agents.

Converted rentals are the classic trap. A home that spent years as a rental carries depreciation that gets recaptured and taxed regardless of the exclusion, and time spent as a non-primary residence can shrink the exclusion itself. **Vacation and second homes get no exclusion at all** — and usually can't use a 1031 the way an investment property can — which often makes the SIS the single best deferral tool you can put in front of those sellers.

In practice

A couple bought their home in 1992 for $180K; it sells today for $1.6M. After the $500K exclusion, roughly $900K of gain remains. Taken at once it lands in the top capital-gains bracket and trips the 3.8% surtax. Structured over 15 years, that same gain spreads into modest annual slices that help fund their retirement — while keeping them in lower brackets.

Watch for

A duplex or triplex where the owner lives in one-unit splits two ways — exclusion on the residence portion, installment-and-recapture on the rental portion. And inherited homes often have little gain (basis resets at death), so the honest answer may be "you may not need this." Saying so builds the trust that makes your recommendation land when it counts.

Commercial

Office, retail, mixed-use, hospitality

Commercial deals carry the biggest gains in real estate — exactly where spreading the tax does the most work. They also carry the most moving parts.

A retiring owner of a fully depreciated office or retail building may have almost **no basis left**, meaning nearly the entire sale price is taxable gain. A large chunk of that gain — the part tied to depreciation taken over the years — is taxed at a higher **25% rate**. The SIS can spread both the ordinary long-term gain and that 25% piece, though the 25% piece generally gets recognized *first* as payments come in.

Above roughly **$5 million in structured balances, an extra interest charge** kicks in on the deferred portion. Commercial deals routinely cross that line, so the structure has to be designed with eyes open — sometimes sizing or splitting the deferral around it.
And **hospitality is its own animal:** a hotel is really an operating business wrapped around real estate, with a large slice of value sitting in furniture, fixtures, and equipment that recaptures immediately, plus goodwill and going-concern value taxed on their own terms. Allocation is everything.

In practice

An owner sells a $6M strip center bought decades ago for $1.2M. Most of the gain is long-term, but a large unrecaptured-depreciation slice is taxed at 25%, and the $6M balance crosses the interest-charge threshold. A specialist models a structure that spreads the gain while sizing the deferral against that charge — something a lump sum can't touch.

Watch for

Tenant-in-common and partnership-owned property adds an entity layer — who actually elects installment treatment, and how the obligation is handled, has to be resolved at the right level before closing. Single-tenant net-lease owners holding purely for income are strong SIS candidates: it converts to guaranteed income without the tenant-default and vacancy risk they carry today.

Industrial

Warehouses, distribution, manufacturing, logistics, cold storage

Industrial is where one rule trips up more deals than any other: a portion of the sale often can't be deferred at all — and you want to know which portion before the seller falls in love with the numbers.

Industrial properties frequently sell with **equipment, machinery, racking, conveyors, or specialized systems** attached. Recapture on that equipment is taxed in full in the year of sale — it **cannot be spread.** The land and building can still be structured; the equipment portion can't. The bigger the cost-segregation or bonus-depreciation history, the bigger that immediate hit.

Owners who aggressively wrote off equipment and short-life components during ownership have a **recapture "wall" waiting at the exit** — the very strategy that saved taxes during the hold creates the bill at sale. That makes **purchase-price allocation** across land, building, and equipment the single most important early step: how the price is split decides how much is deferrable. Owner-occupied industrial — a manufacturer selling its own plant — is usually a bundled deal (real estate plus an operating business); separating the real estate lets the SIS work on the piece it can.

In practice

A manufacturer sells its facility and equipment for $4M. About $1.2M is allocated to machinery largely written off through bonus depreciation — that $1.2M of recapture is taxed up front, no matter what. But the remaining $2.8M of building and land can be structured to spread the rest over years. Knowing that split *before* the offer keeps the seller's expectations honest.

Watch for

Cold storage, food-processing, and high-tech facilities carry unusually large equipment and fixture components. Don't assume "industrial real estate" behaves like an office building — the allocation can flip the entire tax picture, and the deferrable share with it.

Agricultural & Rural Land

Farms, ranches, timber, raw land

This is the specialty where the SIS has its single biggest structural advantage — and where lifetimes of appreciation make it most needed.

The interest charge that burdens large, structured balances on every other property type **does not apply to farm property.** For a retiring farmer or rancher converting decades of land appreciation into income, even a large, long-dated structure stays clean — no interest-charge drag. **No other specialty gets this break.** And because farm and ranch land is often held for generations at a near-zero basis (or inherited long before today's step-up rules), nearly the entire sale price is gain — so spreading it over a long horizon can keep a retiring owner out of the top brackets for the rest of their life.

A working operation is really **several assets in one:** bare land (pure capital gain, fully structure-able), buildings and single-purpose ag structures, equipment and machinery (recaptured immediately), livestock, and growing timber or crops — each taxed differently. Rural land also carries issues no city deal does: **water rights, mineral rights, and timber** can be valued and conveyed separately. A seller might convey the surface but keep the minerals or sell timber under a contract that earns capital-gain treatment. Each piece changes the gain calculation.

In practice

A fourth-generation rancher sells a $3M spread with a basis near zero. Structured over 30 years, the gain spreads into modest annual slices, the farm exemption means no interest charge on the large, deferred balance, and active-farmer status helps keep the payments out of the 3.8% surtax. (See the Hargrove Farm and Brandt Ranch case studies for fully worked versions.)

Watch for

Severed mineral or water rights, conservation easements, and special-use valuations all change the picture — sometimes dramatically. Bring in a specialist who knows agricultural taxation, not just real estate. The allocation across land, equipment, livestock, and timber is where the real planning happens.

Investment Properties

Small multifamily to large apartment complexes, income property

This is the classic crossroads: keep deferring with a 1031, stay passive with a Delaware Statutory Trust, or get out clean with an SIS. Your value is knowing which question the seller is actually asking.

A long-held rental has taken **years of depreciation — and all of it comes back as a 25%-rate recapture bucket at sale**, on top of the regular gain. That stacked tax is exactly what catches tired landlords off guard, and exactly what the SIS smooths across years. Rental gains also feed the **3.8% net investment income surtax;** spreading recognition across more years can keep the seller under the income thresholds that trigger it — a recurring saving a lump sum simply can't deliver.

For the landlord who is **simply done** — done with tenants, turnovers, and midnight calls — the SIS converts the building into a guaranteed income stream with no management and no replacement-property deadline. That's a different goal than a 1031, which keeps them a landlord. Know the neighbor on the menu, too: a **Delaware Statutory Trust** lets an investor stay deferred but go fully passive. The SIS is for the seller who wants *out*, not *in* — and pointing to the right one (including catching the leftover taxable boot from a partial 1031) is what makes you the trusted advisor.

In practice

An owner sells a 20-unit building held 25 years for $2.5M against a $400K basis. The gain is enormous and loaded with depreciation recapture; taken at once it would spike well into surtax territory. Structured over 20 years, it funds retirement, spreads the recapture, and keeps annual income under the surtax line.

Watch for

Suspended passive losses can free up on a sale — but on an installment sale they generally release as the gain is recognized, year by year, rather than all at once. Coordinate the timing with the seller's CPA so those losses land where they help most.

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Your Role: Recognize & Connect

Your value in a Structured Installment Sale has nothing to do with mastering the tax code — and everything to do with two things you're positioned to do better than anyone else in the deal: **recognize** the situation early and **connect** the right people before the window closes. Get those two right and you've done your whole job well.

1

Recognize

You're the first professional in the room. You see the property, you sense the low basis, and you hear the hesitation — the "I'd sell, but the taxes..." that ends a listing before it starts. You don't run a single calculation. You just notice the signals (Section 8 is your cue sheet) and know the tool exists. A CPA reviewing returns months later can't give the seller that — only you, here, now, can.

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2

Connect

Once you recognize it, you bring it up early and bring in the right people: the SIS specialist who designs the structure, and the seller's own CPA or attorney who vets it against their full picture. You're the hub that gets them in the room — and the one person guarding the timing, because the structure must be in place *before* closing. No one else is watching that clock the way you are.

How to connect well

- **Raise it early.** The moment you sense a large gain or hear a tax worry — not at the closing table.
- **Frame yourself honestly.** "I'm not a tax advisor, but there's a tool worth looking at." That candor is exactly what makes the seller trust the referral.
- **Hand the design to the specialist** and make sure the seller's own CPA or attorney is in the loop. You're connecting experts, not replacing them.
- **Guard the timing.** Keep everyone coordinated so the structure is set up before closing — the one thing that can't be fixed afterward.
- **Stay in the loop without taking over.** You opened the door and brought the right people through it; let them carry the technical load.

Staying in your lane is the strength, not the limit

Not giving tax advice isn't a constraint here — it's what keeps you credible and protected. The agent who says "let's bring in the specialist" looks far more sophisticated than the one who guesses at outcomes or promises savings. Recognizing and connecting *is* the value; the technical work belongs to the experts you bring in.

A simple way to start the conversation

You, to a seller worried about taxes *“Before we go further — a property with a gain this size can hit you hard at tax time if you take it all at once. There's a tool called a Structured Installment Sale that lets some sellers spread that out over years instead. I'm not a tax advisor, so I'd want to connect you with a specialist and loop in your CPA, but it's worth a look before we get to closing. Want me to set that up?"*

The first questions your seller will ask — and good short answers You'll field these before the specialist ever joins. You don't need the technical detail — just enough to keep the conversation moving and then hand it off.

- **"Can I still take some cash now?"** — Yes. You choose how much to take at closing and how much to structure. Most sellers keep some liquid and spread the rest.
- **"What does it cost me?"** — Typically, there's no separate out-of-pocket fee to you; the funding company is paid within the structure's pricing. The specialist will walk you through the exact economics.
- **"What happens if I die before the payments end?"** — The payments don't vanish. They can be set up to continue to your heirs or estate. (Your CPA will cover how those payments are taxed to them.)
- **"Will this slow down my closing?"** — It needs a little lead time to set up, which is why we start early — but begun in time, it fits a normal closing timeline.

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When to Flag It

Keep this short list in mind. Any one of these is your cue to raise the SIS — early.

Recognition checklist

- The property has a **large, embedded gain** (long-held, highly appreciated, or low basis)
- The seller **cites taxes** as a reason to hesitate, delay, or not list at all
- The seller is **retiring or exiting** — done being an owner or landlord
- A **1031 exchange failed**, or the seller doesn't want a replacement property
- The seller prefers **steady income** over a one-time lump sum
- It's **appreciated farm, ranch, or rural land** (special advantages apply)
- There's leftover **taxable "boot"** from a partial exchange

When it generally won't fit

Just as useful as knowing when to raise the SIS is knowing when not to — so you don't send the wrong deal down this road.

- **Flips and dealer inventory.** Property is held mainly for resale to customers — house flips, spec builds, a developer's subdivided lots — generally can't use the installment method (a few narrow exceptions exist; that's a specialist call).

- **Sales at a loss.** The SIS spreads *gain*. If there's no gain, there's nothing to defer and no benefit.
- **The seller needs every dollar now.** If the seller must have all the cash at closing, structuring a portion forward isn't the right fit.
- **Sales to close relatives or the seller's own entity.** These carry special rules that can unwind the deferral — possible but route it straight to the specialist.
- **The equipment/recapture slice.** As covered by specialty, depreciation recapture on equipment can't be deferred — the real estate still can.

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The Honest Trade-offs

An SIS is a strong tool, not a magic wand. Knowing the trade-offs is what makes you credible — and keeps you and your seller out of trouble. This Resource Center states them plainly rather than burying them.

- **Compare the after-tax result, not the tax bill.** An SIS usually produces more *total* tax over its life than taking the cash today — but largely because the structured payments earn a return, and that return is itself taxed as it's paid. More tax on more money isn't a worse outcome. The honest yardstick is the **total after-tax result** over time, where deferral and bracket-smoothing often work in the seller's favor. A specialist should run that side-by-side before anyone decides.
- **Liquidity is committed.** The structured portion is locked into a payment schedule — the seller can't simply pull it back out later. Cash taken at closing stays liquid; the structured piece trades flexibility for the guaranteed stream.
- **Counterparty quality matters — but the track record is strong.** The payments depend on the life insurer standing behind them, so credit quality is worth checking. In perspective: these are the same large, highly rated, state-regulated carriers that fund the structured settlement industry — an industry that, across roughly 50 years, has never missed a structured settlement payment. State guaranty associations add a further backstop, and a failure severe enough to threaten these payments would signal far broader problems across the financial system.
- **The schedule has to be designed with care.** Depending on how the payments are laid out, tax can bunch in certain years. That's a design question a specialist manages up front — not an inherent flaw.

- **It isn't the right fit for everyone.** A seller who needs all the cash now, or who plans to hold real estate until death and pass it with a stepped-up basis (which can eliminate the gain entirely), may be better served by a different path. The SIS suits sellers who want to exit and convert to income.

Bottom line for the Realtor

You don't need to master the tax code. You need to **recognize the situation, raise it early, and connect the right people** — before closing. Do that, and you'll save deals other agents lose, protect your commission, and become the advisor sellers and CPAs want to work with.

Structured Installment Sale Resource Center

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