

Deferred Sales Trust™

A capital gains tax deferral strategy

As a result, there is likely no capital gains tax immediately owing from the initial transfer to the trust because of Section 453, and no capital gains tax liability from the sale from the trust to the buyer because there is no capital gain.

By utilizing the DST structure, the seller of the property becomes a noteholder (creditor) and the trust makes the agreed upon payments to the noteholder, pursuant to a payment agreement called an “installment sales contract.” Under this contract, the trust is obligated to make installment payments to the noteholder (seller), representing interest on the pre-tax proceeds or principal from the sale, or both. If the noteholder (seller) has other income and doesn’t need the payments right away, they may elect to defer the start date of the note payments. The tax code does not require payment of the capital gains tax until the seller starts receiving payments of principal. The capital gains tax that will be recognized and paid to the IRS and the State is only that portion of the overall capital gains due from the taxpayer’s sale to the trust, based upon the proportion of principal repayment established in the terms of the installment agreement.

The note payments and the capital gains tax deferral effect from the DST will continue to the next generation upon the demise of the seller. With additional planning by the tax attorneys, the proceeds from the sale can be entirely removed from the seller’s taxable estate.



Helping Clients Preserve Their Estate and Protect Their Wealth

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