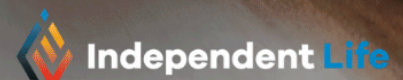


# Structured Installment Sales: Unlocking Opportunity and Tax Efficiency Through Annuity-Funded Transactions



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The Structured Installment Sale (SIS) has emerged as an innovative and practical solution for tax deferral and income security in the sale of appreciated assets—particularly in the business and real estate sectors. For sellers seeking to manage the tax impact of capital gains and create predictable future income, SIS transactions offer a unique blend of financial planning flexibility and regulatory stability. For professionals such as brokers, structured settlement consultants, CPAs, and tax attorneys, the SIS represents an impo

and underutilized tool that builds upon the well-established legal and tax framework of structured settlements.

At its core, an SIS is a traditional installment sale enhanced through the use of payout annuities from a life insurance company. Rather than having the buyer make future payments directly to the seller, the buyer delegates those obligations to a third-party assignment company, which in turn purchases an annuity—fixed or index-linked—to fund the payments. Independent Life, one of the few life insurance carriers specializing in both structured settlements and SISs, offers annuity solutions that are specifically designed for this purpose, including its iStructure annuity.

### **A Modern Adaptation of a Proven Framework**

Structured Installment Sales are built on the foundation of Section §453 of the Internal Revenue Code, which governs installment sales. IRC §453 results in sellers spreading recognition of gain over the term of the installment payments. To qualify, the transaction must include at least one payment received after the close of the taxable year in which the sale occurs. Sellers report income using IRS Form 6252, separating the gain into a return of basis, capital gains, and interest income components.

Structured settlements, the inspiration for an SIS, have been used for decades to compensate personal injury claimants through future periodic payments. That market gave rise to a robust legal and administrative infrastructure involving assignment companies, annuity issuers, and carefully coordinated documentation—a structure now repurposed for SIS transactions.

The key innovation of an SIS lies in transferring the obligation to make future payments from the buyer to an assignment company, which then funds that obligation with an annuity from a regulated life insurer. This model not only enhances security for the seller, but also simplifies administration for the buyer and allows for more creative payment design.

### **Expanding the Asset Universe**

An SIS can be applied to a wide range of appreciated capital assets. The most common use cases include the sale of closely held businesses, professional practices, commercial properties, and agricultural real estate such as farms and ranches. However, an SIS can also be used for transactions involving art, collectibles, books of advisory business, and other non-inventory assets.

Farm-related transactions enjoy several unique benefits under IRC §453 that can make them particularly well-suited for an SIS. For example, capital assets used in farming—such as farmland, buildings, and livestock held for breeding, dairy, or draft purposes—can qualify for installment sale treatment. Additionally, IRC §453A provides special exemptions from interest charges on deferred tax liabilities for sales of personal residences to related parties.

Not all asset sales, however, qualify for installment sale treatment under IRC §453. IRS Publication 537 outlines exclusions from installment sale eligibility, including sales of inventory, dealer dispositions, and publicly traded securities. Advisors and participants should carefully evaluate whether the transaction qualifies before proceeding with an SIS structure.

## **Advantages for Sellers and Buyers**

For sellers, an SIS offers several advantages. Chief among them is the ability to defer capital gains tax by recognizing income only as payments are received. This strategy can result in lower effective tax rates over time, particularly when combined with thoughtful payment scheduling. The seller also benefits from the enhanced security of receiving payments backed by a highly rated life insurance company, rather than relying on the buyer's continued solvency.

In addition to tax deferral, sellers gain the flexibility to customize their income stream. Payment structures can be tailored to fit retirement needs, estate planning goals, or other long-term financial objectives. Options can include monthly, quarterly, or annual payments; deferred start dates; lump sums at designated intervals; and other personalized arrangements.

From the buyer's perspective, an SIS can facilitate transactions that might otherwise stall due to price disagreements or financing constraints. Offering a seller an SIS structure can differentiate the buyer in a competitive bidding environment, while potentially reducing the immediate capital required at closing. Once the delegation is completed, the buyer has no further administrative burden, as the assignment company and annuity carrier handle payment logistics.

## **The Role of iStructure in SIS Transactions**

Independent Life's iStructure annuity is a market-leading solution for SIS funding, offering both guaranteed income and indexed growth potential. Developed with Franklin Templeton and Bank of America, iStructure links future payment increases to the performance of the Franklin BofA World Index™—a volatility-controlled index designed to generate consistent returns. This product allows sellers to benefit from market gains without exposure to downside risk: payments will never decline, even in years when index performance is negative.

The index-linked feature of iStructure makes it particularly attractive for long-term planning in SIS transactions. Unlike traditional fixed annuities, iStructure enables sellers to participate in market upside, increasing their total payout over time. This opportunity is especially appealing in an inflationary environment or when sellers expect to need increasing income in later years.

## **Implementation and Documentation**

A successful SIS begins with a Purchase and Sale Agreement (PSA) that specifies consideration to be paid over time. If needed, this agreement can be amended to facilitate the delegation of the payment obligation. Once the PSA is finalized, the buyer enters into a Delegation Agreement, transferring the periodic payment obligation to an assignment company along with a lump sum for the assignment company's acceptance of the delegated obligation. The assignment company then applies for an annuity from Independent Life, using the lump sum provided by the buyer minus a small servicing fee.

Independent Life requires a series of supporting documents to complete the transaction, including a Statement of Understanding (summarizing the annuity terms), an Information Form (detailing parties and contacts), and a Beneficiary Form (identifying recipients of any remaining payments upon the seller's de

While SIS documentation can appear complex, it is grounded in processes familiar to structured settlement professionals and is supported by Independent Life's experienced team.

Independent Life is currently in the process of integrating this documentation process into its proprietary Mosaic technology platform. Once completed, Mosaic will allow for seamless automation of the SIS workflow—from quoting through contract issuance and payment processing—enhancing both efficiency and accuracy.

### **Compliance Considerations and IRS Scrutiny**

The IRS has recently stepped-up scrutiny of certain alternative deferral strategies, including Monetized Installment Sales and Deferred Sales Trusts, citing concerns about abuse and noncompliance. Structured Installment Sales, by contrast, rely on the straightforward application of IRC §453 and do not involve monetization schemes, loan arrangements, or third-party trusts.

Because the SIS structure uses regulated insurance products and assignment companies, and because it adheres to longstanding tax principles, it offers a far more conservative and compliant approach to deferral. Advisors and professionals should nevertheless ensure that all documentation is properly executed and that payment rights are nontransferable, irrevocable, and not subject to constructive receipt by the seller.

For those interested in further tax policy analysis, Independent Life representatives George Luecke and Patrick Hindert co-authored a recent article in Tax Notes that explores IRS enforcement activity, regulatory developments, and the proper design of structured deferral strategies. This article is available upon request and may be helpful for professionals advising high-net-worth clients.

### **A Strategic Tool for the Right Transactions**

An SIS is not appropriate for every transaction, but when used properly, it offers a unique combination of tax efficiency, payment security, and planning flexibility. For sellers of appreciated businesses or real estate assets, an SIS can provide long-term income backed by a regulated insurer. For buyers, an SIS can facilitate smoother transactions and potentially improve deal terms.

As the financial and regulatory landscape continues to evolve, professionals who understand and offer an SIS will be better equipped to serve sophisticated clients seeking creative and compliant planning options. Independent Life stands ready to support those efforts with product innovation, technical expertise, and a commitment to integrity and transparency.

To learn more about an SIS and how iStructure annuities can support your clients' needs, contact Independent Life at [info@independent.life](mailto:info@independent.life) or visit [www.independent.life](http://www.independent.life).

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