

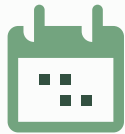


*For you. For them. For generations to come.*



## How to Sell Your Assets More Effectively

An Intermediated Installment Sale is an alternative to an outright sale. Using IRS Code §453 as its foundation, this installment sale structure offers a number of benefits lacking in an outright sale, including:



Deferring payment of capital gains for several years after sales, using inflation to your advantage



Protecting assets against creditors and lawsuits



Replacing income lost when selling a business or real estate



Better managing of risks associated with "carrying a note" for a buyer



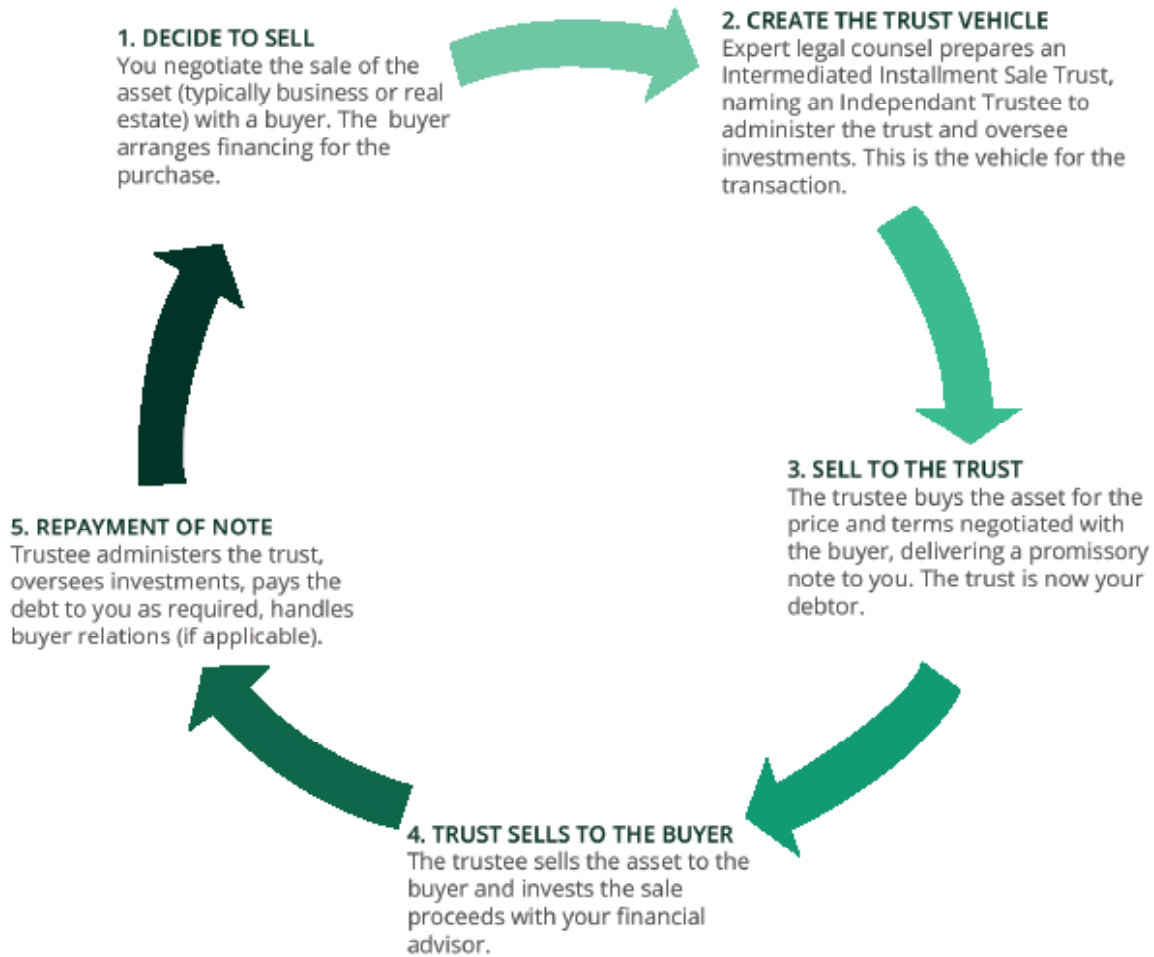
Providing more investable cash and income

At its core, an Intermediated Installment Sale spreads delivery of the income from the sale over the life of the installment note. In doing so it defers payment of capital gains and can provide greater financial benefits compared to payment of taxes in the first year of the sale.



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## Intermediated Installment Sales Process:



Since you are not holding the note for the buyer, you eliminate the risk of poor buyer management leading to a default on the note.

Since Dunham Trust Company is a Nevada based trust company, you benefit from what many consider one of the best asset protection laws in the country.



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## Let us explore a hypothetical case study:

### THE OUTRIGHT SALE

Assume:

- √ You intend to sell an asset in California.
- √ The asset is valued at \$5,000,000.
- √ There is no third party debt, such as a mortgage or business loan.
- √ The applicable tax rates are:
  - *Federal capital gains tax rate of 20%.*
  - *State effective capital gains tax rate of 13.30%.*
  - *Medicare tax rate of 3.8%.*
  - *Note: this case study does not address other state or local taxes.*
- √ You own 100% of the asset.
- √ Your basis is \$500,000.

If you sell the business outright for \$5 million and your cost basis is \$500,000, your taxable gain is \$4.5 million. Therefore, at the time of sale, your total estimated taxes due will be:

Federal Capital Gains Tax	\$900,000
Medicare Tax (if applicable)	\$171,000
State Effective Capital Gains Tax	\$598,500
<b>Total Tax Due</b>	<b>\$1,669,500</b>
<b>Total Net After Taxes</b>	<b>\$3,330,500</b>

### THE INTERMEDIATED INSTALLMENT SALE

Now assume the same facts as “The Outright Sale” above, but using a carefully constructed Intermediated Installment Sale. By deferring an immediate payment of capital gains taxes, the Intermediated Installment Sale enjoys the earning power of the \$5 million sales price rather than the outright sale’s net proceeds of \$3.34 million.

### BETTER RESULTS – BY EARNING MONEY ON THE TAX MONEY

Finally, **compare the results.** Using the same facts, also assume:

- √ Both scenarios have the same capital gain tax rate.
- √ Both scenarios pay the same advisory fees.
- √ The Outright Sale earns 6.0% in annual income.
- √ The Intermediated Installment Sale earns 6% in annual income, to account for 50 basis points per year paid for the trustee’s fee to administer the Intermediated Installment Sale trust (this is not incurred in the Outright Sale).
- √ The Intermediary Installment Sale is due to in 20 years.



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	Outright Sale	Intermediated Installment Sale
Cash available to invest	\$3,330,500	\$4,937,500
Hypothetical annual Income @ 6% (1)	\$199,830	\$271,562
Accumulated income over 20 years	\$3,996,600	\$5,431,250
Taxes Due after year 20	-	\$1,669,500
<b>Total Economic Value after 20 years</b>	<b>\$7,327,100</b>	<b>\$8,699,250</b>

1) Net return on the Intermediated Installment Sales is 5.5% due to trust's 50 bps annual administrative fee

**In this hypothetical case study, the Intermediated Installment Sale potentially provides an additional \$1,372,150 of income and economic value during the 20-year period.**

In addition, if we assume a 2% rate of inflation, the present value of the tax due today of **\$1,669,500** paid 20 years from now, would be **\$1,123,526** or 67.3 cents on the dollar, thereby putting inflation to work for you!

In our view, the Intermediated Installment Sale provides significant advantages to an outright sale – advantages many times over looked when transitioning ownership of a business or real estate.

## Risks Associated With an Intermediated Installment Sale

One of the primary uncertainties as to whether or not a client should consider an Intermediated Installment Sale or other similar tax strategies is that current tax rates are subject to change at any time and no one can predict with certainty what Congress or the IRS may do or that IRS will not challenge the strategy in the future.

Dunham Trust Company does not guarantee the completion of the installment note as investments will be subject to market conditions. Information and hypothetical case studies are made available to you for hypothetical illustrative purposes only and are not intended to provide investment or tax advice. We cannot and do not guarantee their applicability or accuracy in regards to your individual circumstances and do not guarantee that your objectives will be achieved.

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