

# 1031 Tax Update

LEGAL 1031 EXCHANGE SERVICES, INC.

2010

## DEFERRED SALES TRUST

### A 1031 EXCHANGE ALTERNATIVE

Investors who own businesses, corporations, and commercial or residential investment real estate assets are often reluctant to sell because of capital gains taxes associated with the sale. But what other choice do investors have other than a property exchange directed by a Qualified Intermediary as an IRC §1031 tax deferred exchange? Is there another way to deal with the capital gains tax deficits that so many investors experience when they sell their real estate assets? The answer may lie in the Deferred Sales Trust™.

This capital gains tax deferral tool could save you thousands of dollars, and at the same time, you would then have the opportunity to potentially make a profit on the money you would have paid to Uncle Sam in the year of the sale. Obviously, this strategy is gaining popularity among those who have highly appreciated assets that are marked for sale.

The process starts when a property owner sells its property to a trust owned by a third party company. The trust

sells the property or stock. Next, the trust "pays" you. The payment isn't in cash, but with a payment contract called an "installment contract." The contract promises to make payments to you over an agreed period of time. There are zero taxes to the trust on the sale since the trust "purchased" the property from you for what it sold it for. The payment is made with an installment contract which makes payments to you over an agreed period of time.

The options on when and how payments can be made are flexible. You may have other income and don't need the payments right away. The tax code doesn't require payment of the capital gains until you start receiving installment payments. The capital gains tax is paid to

the IRS with an "installment plan" since only that portion of capital gains is due in proportion to the number of years established in the term of the installment agreement.

The Deferred Sales Trust™ has the potential to generate more money over the long run than a direct and taxed sale. There is also the opportunity to borrow against the investment and have access to the funds tax free.

There may be a more suitable or appropriate tax structure depending on your circumstance. Please call Todd R. Pajonas, Esq. or Matthew K. Scheriff, CPA to discuss your specific circumstances and goals with you.



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