

**TAX DEFERRAL WHEN YOU “CARRIED THE PAPER”  
AND THE BUYER IS ABOUT TO PAY YOU IN FULL**

**This is a tax problem which arises because of Section 453B of the Internal Revenue Code, which reads in part as follows:**

**If an installment obligation is . . . sold, or otherwise disposed of, gain or loss shall result . . . [and] shall be considered as resulting from the sale or exchange of the property in respect of which the installment obligation was received.**

# S.Crow Collateral Corp.

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## No Easy Way Out, by Just Selling the Installment Debt

Because of that language in Section 453B, the obvious solution won't work; one can't just sell the installment contract on another installment contract, and thereby continue the tax deferral. (That's not to say that in most instances one would *want* to sell an installment debt; most installment debts can't be sold without the seller's agreeing to a very substantial discount.)

## What S.Crow Collateral Corp. Does, As a Solution

Instead of taking an assignment of the debt from the seller who is about to be paid in full, S.Crow Collateral Corp. assumes the debt from the *buyer*. The seller releases any existing lien that is security for the debt, and when the buyer assigns to S.Crow Collateral Corp. the buyer's position and obligation under the debt, the seller releases the buyer from further obligation. S.Crow Collateral Corp. becomes the successor buyer-debtor.

Instead of paying the seller, the previous debtor pays S.Crow Collateral Corp. to take over the obligation. The seller does not get paid, and the debt continues in existence as it was previously. All of the main action is on the debtor's side, not the seller's side.

Thereupon, S.Crow Collateral Corp., as the successor buyer-debtor, and the seller negotiate new terms for the debt, to stretch out the payment of the principal, typically for 30 years. If the principal is paid entirely at the end and not amortized, the capital-gains tax is entirely deferred for that 30 years.

## Non-Taxable Loan Proceeds, Rather than Taxable Sale Proceeds

With the lien that previously secured the debt having been released, the seller can now have something better: S.Crow Collateral Corp. will introduce the seller to a lender which is willing to lend to the seller (as to all of our sellers) an amount that is equal to an agreed high percentage of the amount that S.Crow Collateral Corp. receives from the previous debtor. Our installment debt to the seller will generally exceed the loan amount, at least until maturity. It is not a requirement that the seller accept the loan, however; the seller is free to choose instead to rely on S.Crow Collateral Corp.'s unsecured promise to pay the installment debt's principal and interest.

## Automatic Payment Debiting and Crediting

The loan agreement between our seller and the lender will assure our seller that in no circumstance will the lender seek to compel the seller to pay any amount as interest or principal on the loan beyond what S.Crow Collateral Corp., as the successor debtor, pays to our seller on the installment debt. The installment contract is not pledged to the lender, and the lender has no rights in the installment contract. Instead, the lender requires that our seller agree to automatic payment debiting and crediting, so that every time that S.Crow Collateral Corp. makes a payment to our seller on the installment debt, our seller will automatically pay the same amount to the lender as a loan payment.

## Tax Reporting

Each year the payment processor will send the required tax reporting to our seller, showing the equal amounts of interest payments received on the installment contract and paid on the loan. Where our seller will make money during the term will be from the seller's investment of the loan proceeds.

## Disclaimer

As a principal only, S.Crow Collateral Corp. does not act in the capacity of a broker, sales representative, investment adviser, or tax or legal adviser, does not sell or recommend any security; and does not accept any transaction fee or payment for transaction services. Circumstances may affect tax and legal outcomes. Each transaction is different and unique to each participant. Nothing herein is intended to be, or may be taken to be, tax, legal or investment advice. Interested parties should consult their legal, tax and investment advisers before participating in any transaction.

