FINANCIAL IMPACT OF STRUCTURED PAYMENTS PROGRAM
WITH THE SALE OF A LONG-TERM GAIN PROPERTY

Without Structured Payments Program

Selling Price	$2,000,000
Cost	$1,000,000
Depreciation	300,000
Basis	$700,000
Recapture	$300,000
Long-Term Capital Gain	$1,000,000
Outstanding Mortgage	$700,000
Tax on Recapture @40%	$120,000
Tax on LTCG	150,000
Total Tax	$270,000

With Structured Payments Program

Selling Price	Cash Amount	$1,000,000
	SPP Value	2,720,160 **(a)**
Total Selling Price		$3,720,160
Cost		$1,000,000
Depreciation		300,000
Basis		700,000
Recapture		300,000
Revised Basis		$1,000,000
Outstanding Mortgage		$700,000

Allocation of adjusted basis to Sales Price:

Revised basis	700,000
Gross selling price	3,720,160
Basis as % of selling price	18.8% **(b)**

Annuity Plan
- 15 years of equal payments after 10 years
- Earnings rate of 6%
- Ordinary tax rate of 40%
- LTG tax rate of 15%

	Without SPP	**With SPP**		
Description	**Cash Proceeds**	**Cash Proceeds**	**SPP Amount**	
Gross Sales Price (cash/calculated)	$2,000,000	$1,000,000	$2,720,160	**(a)**
Less: Basis (actual/calculated @ 26.8%)**(b)**	700,000	188,000	512,000	**(b)**
Depreciation recovery	300,000	300,000	n/a	
Long-term gain	$1,000,000	$512,000	$2.208,160	
Cash/program proceeds	$2,000,000	$1,000,000	$2,720,160	
Less: Tax of Depreciation recovery (40%)	120,000	120,000	n/a	
Long-term capital gains tax (15%)	150,000	76,800	331,224	
Less: Mortgage payoff	700,000	700,000	n/a	
Net proceeds after current tax	**$930,000**	**$103,200**	**$2,388,936**	
Amount placed in annuity/program	**$930,000**	**$103,200**	**$1,000,000**	**(c)**
Value in 10 years with tax deferred growth	$1,665,488	$184,815	$1,790,847	
Total payments over 15 years	**$2,529,720**	**$280,717**	**$2,720,160**	**(a)**
Cost of Annuity	930,000	103,200	00	
Taxable amount	$1,599,720	$177,517	$2,720,160	
Less: Recovery of adjusted basis (26.8%)	n/a	n/a	512,000	**(d)**
Taxable amount			$2,208,160	
Less: Tax at 40% ordinary / 15% LTCG	$639,888	$71,007	$331,224	
Total proceeds	**$2,529,720**	**$280,717**	**$2,720,160**	
Less: Tax Costs	**639,888**	**71,007**	**331,224**	
Net proceeds of transactions	**$1,889,832**	**209,710**	**2,388,936**	

After tax proceeds with SPP	**$2598,646**
After tax proceeds without SPP	**1,889,832**
Gain by using SPP	**$ 708,814**

The Structured Payments Program results in a 37.5% increase in after tax proceeds over a conventional annuity program funded with after-tax dollars.

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EXPLANATORY NOTES:

(a.) The structure of the program allows the total proceeds of the transaction to be accounted for as original proceeds of the transaction. In simple terms, the buyer agrees to pay the gross amount and hires the structured annuity company to fulfill its obligation for an amount equal to the cash that would have been paid to the seller if the SAP were not used.

(b.) The adjusted basis of the property is allocated to the two divisions of the transactions separately from the recovery of deprecation which must be accounted for in the year of sale. The gross selling price is the gross amount that the seller will receive over the life of the program, including cash at closing.

(c.) This $1,000,000 is the amount the buyer pays to purchase the stream of payments that will be made to the seller by the structured annuity provider. This amount together with the cash paid at closing of $1,000,000 equal the cash selling price of the property.

(d.) This is the allocation of the adjusted basis.

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