8 Deferred Sales Trusts FAQs

1. Why Have I Never Heard of this Before, and Why Hasn't My Tax Advisor Recommended it to Me?

We have found that many CPAs and tax attorneys have heard of it, but they don't have experience using it or only have peripheral knowledge. Understandably, they are cautious about recommending a strategy they don't fully understand.

2. Is a Deferred Sales Trust a "Tax Loophole?"

Deferred Sales Trusts are governed by Section 453 of the IRS tax code, with installment sales being a longstanding practice. The IRS has confirmed through private letter rulings and audits that the Deferred Sales Trust is a legitimate, legal tax strategy, not a loophole.

3. Is a Deferred Sales Trust the Same as a Monetized Installment Sale?

The IRS has recently cracked down on monetized installment sales, making many investors nervous about using a deferred sales trust. They are not the same thing. In simplest terms, a monetized installment sale "loans" the total sale price amount back to the seller for a minimal interest rate.

4. Can I Decide the Amount of Payment I Receive or Where My Proceeds are Invested?

Before selling your asset, you'll collaborate with the Deferred Sales Trust trustee to determine the terms of the installment note. The trustee, along with your financial advisor, tax attorneys, and CPAs, will structure the trust based on your income needs, goals, risk tolerance, and preferences.

5. Can I Make Changes to the Payment Structure After the Sale?

Yes, the Deferred Sales Trust trustee can use their discretion to allow you to refinance your installment and change the structure of the promissory note. You can extend or shorten the note, increase or decrease the principal payments, or move to an interest-only structure.

6. Which Assets Qualify for a Deferred Sales Trust?

Unlike a 1031 exchange, the Deferred Sales Trust can be used with a wide variety of assets. You can use a Deferred Sales Trust anytime the sale of your asset results in a capital gain of at least $1 million. This applies to commercial real estate, primary residences, farmland businesses, Bitcoin, stocks, and art and collectibles.

7. If I Use a Deferred Sales Trust to Sell a Property, Can I Use the Proceeds to Buy Another Property?

Of course! A Deferred Sales Trust is a flexible alternative to a 1031 exchange, offering more freedom in reinvesting proceeds. Unlike the strict guidelines and timelines of a 1031 exchange, you can invest in a variety of property types, such as primary residences, apartments, farmland, or commercial real estate, and choose when to reinvest your funds.

8. I Want to Find Out if This Works for Me. What Do I Do Next?

If you want to see if a Deferred Sales Trust works for you, contact a qualified and experienced Deferred Sales Trust Trustee. Capital Gains Tax Solutions offers free consultations to see if a DST can help you defer your capital gains taxes and maximize your returns.

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