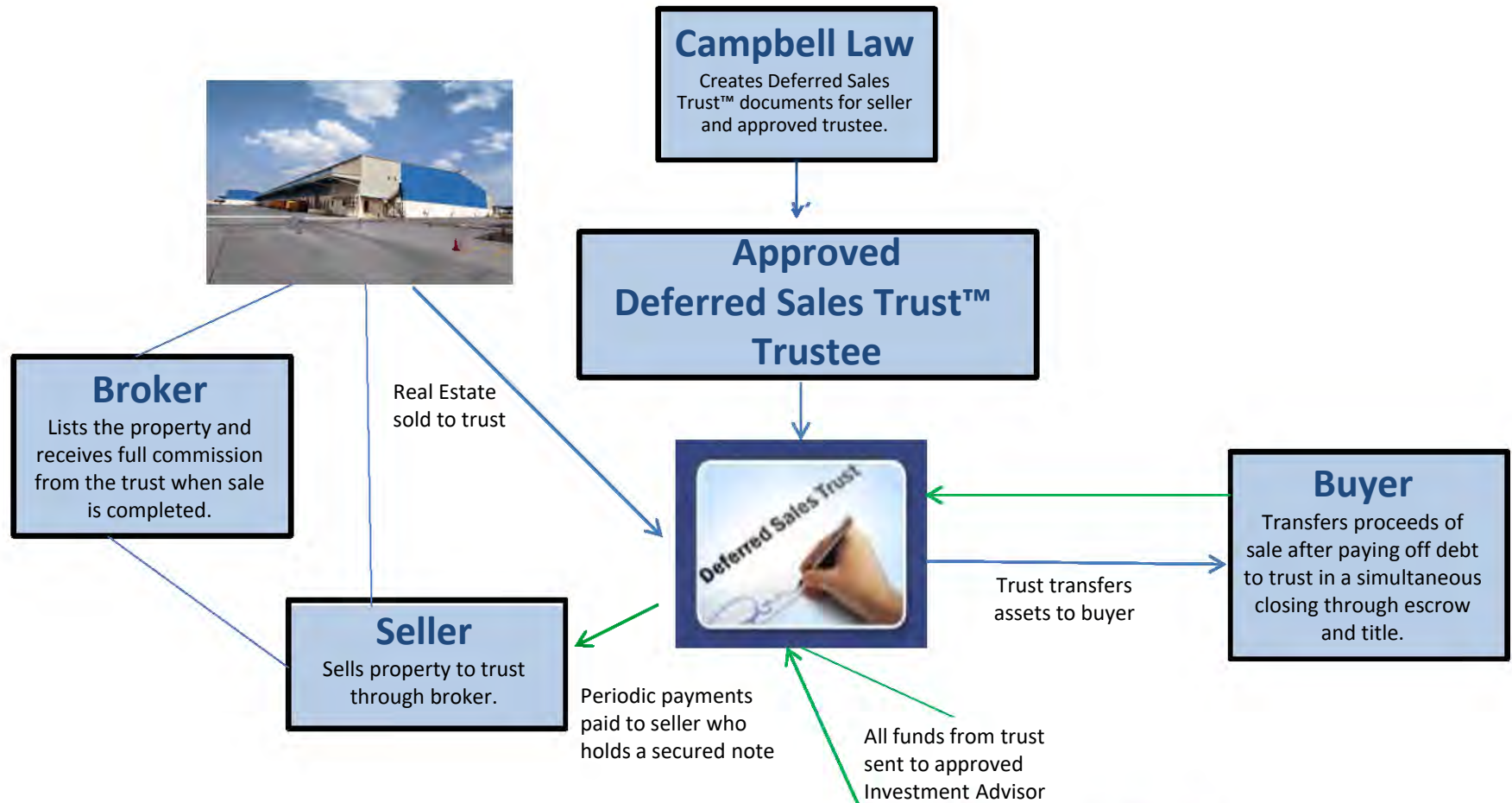


Deferred Sales Trust™ - Real Estate Sale



Diagrams and the accompanying information is for educational purposes and is solely intended to provide an overview on how the Deferred Sales Trust™ works and can be implemented. The Estate Planning Team does not provide legal, tax professional services, or advice. Each transaction and individual circumstances vary widely and participants are strongly urged to seek independent legal, tax and professional advice.

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Investment
proceeds sent
back to trust



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HOW THE DEFERRED SALES TRUST™ CAN HELP WITH THE SALE OF YOUR REAL ESTATE

The Deferred Sales Trust™ is the core service of Estate Planning Team. It is a respected strategy for the deferral of the capital gains tax due upon the sale of a highly-appreciated asset such as investment real estate or a business. The Deferred Sales Trust™ is governed by IRC Section 453 and has been successfully utilized for over 20 years. It allows real estate and business owners to sell their asset in exchange for a secured installment note that provides for the deferral of capital gains tax and an income stream based on the pre-tax proceeds inside of the trust.

A common strategy for capital gains tax deferral on the sale of real estate is the IRC Section 1031 exchange. However, the 1031 exchange requires the seller of a property to reinvest in another property within a short period of time in order to achieve tax deferral. The real estate investor has 45 calendar days beginning the day after the sale of the relinquished property to identify replacement properties. The investor must then complete the purchase of the replacement property within 180 calendar days of that same day after sale date. So, the investor is acquiring a replacement property in market conditions similar to those in which they just sold their appreciated property. While the 1031 exchange may be a suitable strategy for real estate investors who want to continue owning real estate, the 1031 exchange is NOT an exit strategy from real estate ownership. Often it may not achieve the goal of the seller, especially if the seller is interested in retiring, and prefers to exit actively managed real estate and the associated property management headaches and risks that come with ownership.

Another common capital gains tax deferral option for the sale of real estate is the IRC Section 453 installment sale, sometimes referred to as “seller financing.” This strategy can provide an income stream to the seller of a business or real estate for a period of years but will only achieve tax deferral for the seller on the portion of the principal that is not yet paid by the purchaser. Eventually, the payment of principal (such as with an amortized payment structure or a balloon payment) will result in the capital gains taxes being paid by the seller.



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A traditional installment sale can have substantial risks associated with it, primarily because the installment note payments are secured by the same asset that you just sold, but which you no longer want or control. For example, when markets correct, the buyer of your asset could default on the payments leaving you to foreclose on the property. But what if the purchaser has mismanaged the asset or adverse market conditions have resulted in the value being substantially lower than when it was sold? Another concern with an installment note is that the buyer of your property can sell it to a new buyer. In this situation, you could find yourself getting paid off too early, thereby triggering your capital gains tax liability and causing you to suffer a significant equity drain.

The Deferred Sales Trust™ is an attractive alternative to a 1031 exchange or to a traditional installment sale. It offers powerful tax-deferral benefits but with significant advantages over both the 1031 exchange and the traditional installment sale. With the Deferred Sales Trust™, there is no requirement to re-invest your proceeds in a replacement property as there is with the 1031 Exchange. You have a much wider variety of potential investment options with the Deferred Sales Trust™. Further, the resulting installment note from the Deferred Sales Trust™ is not secured by the asset that you just sold, but is secured by a diversified portfolio of other assets inside of the trust and managed by experienced investment advisors. The Deferred Sales Trust™ offers the real estate investor an exit strategy with an extraordinary amount of flexibility and an income stream based upon the pre-tax proceeds inside of the trust.

The Estate Planning Team has an exclusive relationship with the Campbell Law Firm and it vigorously protects the proprietary nature of the Deferred Sales Trust™ strategy. It is a unique financial solution that other advisors either may not know about or cannot provide. As with all significant tax and legal matters, it is important to review the Deferred Sales Trust™ with your tax and legal advisors.

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