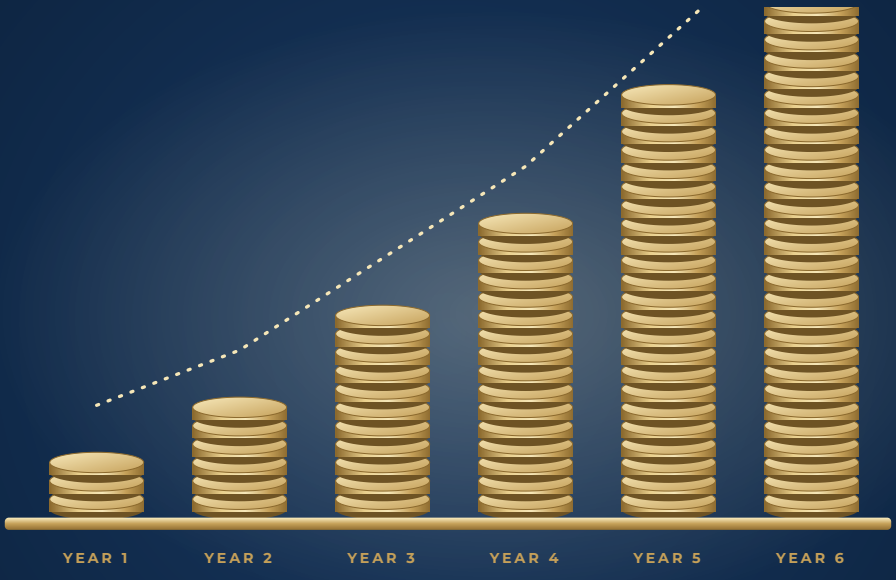
A PLANNING GUIDE FOR CFP® PROFESSIONALS AND FIDUCIARY ADVISORS



More to Manage

How to Win More for Your Clients When They Sell the Building, the Business or the Farm, and What It Means for Your Practice

HANS GOLDSTEIN, EA

SECTION 453 · 2026 LAW · ENGINE-COMPUTED NUMBERS

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Hans Goldstein: Tax & Exit Planning

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More to Manage: How to Win More for Your Clients When They Sell the Building, the Business or the Farm, and What It Means for Your Practice by Hans Goldstein, EA

A planning guide for CFP® professionals and fiduciary advisors. A companion to *The Waterfall Strategy: Cash In Your Stuck Losses Before They Disappear.*

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First edition, October 2026. This edition updated October 10, 2026. Tax rules and rates are stated as of October 10, 2026.

How this book was made. Prepared by Hans Goldstein using financial-modeling software and AI-assisted drafting, and reviewed by him. Every tax figure was computed with the same tax engine used in *The Waterfall Strategy* (2026 federal law, including the alternative minimum tax and the 3.8% net investment income tax, plus California law), and the script that produced each number is kept so the numbers can be re-run and checked.

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Read This First

You'd never tell a client to pull $3 million out of an IRA in one year. So why let them take a $3 million gain in one year when they sell the building, the business or the farm?

You already know how to spread income. You ladder IRA withdrawals to fill a bracket and stop. You time Roth conversions around Medicare's two-year look-back. You would never let a client take a seven-figure distribution in one December without a very good reason.

Then the client sells the building, the farm or the company. The biggest liquidity event of their life lands in one tax year, and nobody on the team asked whether it had to.

This book is about getting that moment right **for the client.** It covers one planning tool, the Section 453 installment sale, used one way: the **structured installment sale** ("a structured sale" or "a structure" for short). It shows where the tool fits in a financial plan, how to test it the way you'd test any planning recommendation (after-tax wealth, a break-even return, the side effects on Medicare and Social Security), and six client examples with the numbers run, including one where the honest answer is to take the cash.

It's written for CFP® professionals and other fiduciary advisors: fee-only, fee-based and dually registered.

What it can do for your client

- **Keep more of the sale.** In the main California example, a $5,000,000 sale with a $4,000,000 gain, a 5-year structure cuts the tax on the gain by $251,702 and a 10-year structure by $357,641: fewer dollars taxed in the top layers. The note interest is taxed too, every year, and every wealth comparison in this book counts that tax.
- **End wealthier, on stated assumptions.** At a 6% gross return and a 1% fee, the same client is $36,406 (5 years) to $371,922 (10 years) ahead at

year 20. The 5-year margin is thin, and you'll see exactly what return flips each one. If the client lives on the money, spending $150,000 a year, the after-tax lead grows to $230,524 and $693,678, mostly because the cash seller pays tax on the gains it sells to spend (Chapter 4).

- **Control of the plan.** A schedule designed around brackets, the alternative minimum tax, Medicare's look-back, Roth conversions, Social Security and the client's spending, with less of the sale in the market early, instead of one tax year nobody planned.

What it does for the relationship

- **You're in the room when the money moves.** The proceeds come into the plan on a schedule, instead of to whoever calls first after closing. (Until a payment arrives, it's owed by the assignment company, not invested anywhere.)
- **Real work with the CPA and the attorney,** on the client's biggest decision, and planning the client can see and talk about (Chapter 9).
- **Two clean ways to refer.** Fee-only: refer and take nothing, and your fee-only status stays intact; an unpaid introduction that stops short of soliciting the contract needs no insurance license, and I pay nothing to unlicensed referrers. Life-licensed: a disclosed commission or commission share, in dollars (Chapters 10 and 15). Either way the client's numbers decide.

What it means for your revenue, honestly

- **A structure starts with less money under management, not more.** Fee only, the main example's 5-year schedule produces $130,203 less fee through year 20 than a cash sale that would have landed in your account; the 10-year's annual fee is higher only from year 11.
- **Short schedules and carve-outs narrow the gap.** For many gains, 3 to 5 years does most of the tax work and fills the account within a few years (Chapter 11); keeping 10% to 25% of the price at closing puts money under management on day one (Chapter 12).

- **Life-licensed, at a 3% commission,** schedules up to 5 years keep you ahead of the cash sale every year; 10 years doesn't.
- **Against proceeds that were headed elsewhere,** a 1031 exchange, a Delaware statutory trust or the bank, every dollar of fee is new. Chapter 13 puts the client's ledger and both of yours side by side.

And when the numbers say take the cash, saying so is the win, for the client and for the relationship.

A word about me. I'm the licensed insurance agent who places these structures, and I'm paid a commission when one closes and nothing when the client takes cash. That's a conflict, and you should read this book with it in mind. It's why every number here can be re-run by you, in the calculator, and by the client's CPA.

> **RUN YOUR OWN CLIENT**
>
> The companion advisor calculator at installmentsalecalculator.com/advisor-calculator/ uses the same model as this book: enter price, basis, state, age, income, term, cash at closing, spending and your fee, and it returns the client's after-tax wealth, the break-even return and your revenue year by year. It is free and runs in your browser.

How the book runs. Part I, *Your Client* (Chapters 1 to 8): the idea, the tax math, where the client ends up, what moves the answer, the side effects, the plan and six clients. Part II, *The Relationship* (Chapter 9). Part III, *Your Revenue* (Chapters 10 to 13): fee-only and life-licensed revenue, short schedules, carve-outs, and every ledger on one page. Part IV, *Doing It Right* (Chapters 14 to 17): objections, compliance, working with a specialist, and the pairings (Social Security, Roth, insurance) that multiply the payment years. Part V, *The Whole Return* (Chapters 18 to 21): tax attributes, equity cost, big estates and a quick check. If you read one page, read the one right after the contents; if you read two, add Chapter 13. Every tax figure is engine-computed under 2026 law; the market return and fee are stated assumptions, not forecasts.

The Dream: $11 Million In, $0 To the IRS

This is the ceiling: what the structure can do for the client who has everything lined up. It is an extreme example, and the next section says so. It is the one place in this book that says $0.

Frank and Diane, 68, live in Texas, with a net worth of $45,000,000. One asset is an apartment building worth **$10,000,000** with a basis of **$2,000,000**: an **$8,000,000** gain. Over the years it also left them **$10,500,000** of suspended passive losses on Form 8582. A cash sale would cost about **$2,054,000** of federal tax on the gain. A step-up would erase the gain, but the losses would mostly die with them.

They sell on a 5-year installment note at 4.5%, close to the minimum rate: $2,000,000 of principal a year plus interest. Each year §469(g)(3) frees the losses in step with the gain reported. They are bigger than the gain and the interest together.

OVER THE 5 YEARS	TOTAL
Gain reported	$8,000,000
Interest	$1,350,000
Suspended losses freed	$10,500,000
Federal income tax on the $11,350,000 received	**$0**

Then the estate, which is the part your client's CPA is not paid to raise. At $45,000,000 they are $15,000,000 over the $30,000,000 couple's line. At 40%, that is **$6,000,000**, due in cash nine months after the second death. They gift about **$90,000 a year** out of the payments to an ILIT for 3 children and 6 grandchildren, inside the $342,000 annual exclusion room (9 beneficiaries x $19,000 x 2 givers). The trust owns a **$6,000,000** second-to-die policy; the premium is my assumption, not a quote. The death benefit is outside the estate and generally outside income (§§2042, 101(a)).

Yes, this is an extreme example

Everything has to line up: losses about 1.3 times the gain, a short note, no state income or estate tax, an insurable client, a trust drafted by an estate attorney with the gifts and Crummey notices done right, and a fully taxable disposition of the whole activity (§469(g)). In California or Massachusetts the state takes its share.

Most clients get part of it. Losses that cover **half** the gain cut that tax about in half. A client worth $20,000,000 may not need the trust today and still keeps the option. A smaller policy covers part of the estate tax. The rest of this book is how to find which parts fit your client, and Chapter 20 is the estate half.

Illustration only, on assumed facts, not tax, legal or investment advice and no recommendation of any investment. I am a licensed insurance agent and may earn a commission on a policy or a structure (see Disclosures). The client's CPA and estate attorney run the client's numbers.

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ONE PAGE

The Whole Book on One Page

Tax on a $4M gain (California)



Client ahead at year 20 (6% gross, 1% fee)



1. The idea

A sale taxed in one year pushes the gain through the 20% bracket, the alternative minimum tax, the 3.8% tax and the top state rates. Paid over several years, more of it lands in the lower layers.

2. The client test

Where the client ends up, after tax and fees, at a return you would plan on. $5M California sale, 6% gross: 5-year $36,406 ahead at year 20, 10-year $371,922. Cash catches up above about 6.1% and 6.7% gross.

3. When it wins

A large gain, a high-tax state, moderate other income, a return you would plan on near 6%, and a client who does not need all the cash at once.

4. When cash wins

A gain that already fits the low brackets, high ordinary income that continues, high planned returns for decades, a short life expectancy, or an asset that does not qualify.

5. What it costs

No early access, growth given up, inflation, one credit exposure, no IRS ruling on the assignment, Medicare surcharges, no step-up at death, and a commission built into the rate.

6. The relationship

Plan the exit and you are in the room when the money moves, with the CPA and attorney. Refer fee-only and take nothing, or life-licensed for a share disclosed in dollars.

7. Your revenue, honestly

Fee only: less fee for years (5-year: $130,202 behind through year 20), then a larger account. Life-licensed at 3%: ahead every year up to 5-year schedules. A 10% to 25% carve-out narrows the gap.

8. Your steps

Spot the sale early. Run the calculator. Side-by-side with the CPA. Two quotes, commission in dollars. Compliance sign-off. All before the purchase agreement.

The one rule

Show the client's column first. If the numbers say cash, say cash.

ONE PAGE

Your First Hour

One hour, before your next round of reviews. First find the clients, then gather one client's papers. Everything else in this book works from these.

Search your book (20 minutes)

- ☐ Clients who own real estate, a business or a farm worth $2,000,000 or more.
- ☐ Anyone with a listing pending, a letter of intent or a buyer calling.
- ☐ Anyone who listed, or had an offer fall through, in the last two years. Ask what happened and why it didn't close.

For one client, gather (40 minutes)

- ☐ The last two tax returns.
- ☐ Form 8582 and its carryforward worksheet: the suspended passive losses, property by property.
- ☐ Every K-1: the passive loss line on each, and the total passive pool.
- ☐ The depreciation schedules: basis and depreciation taken.
- ☐ The closing statement or the listing, and the loan payoff.

Your worksheet

CLIENT	ASSET	SUSPENDED PASSIVE LOSS	BASIS	DEPRECIATION TAKEN	EXPECTED PRICE	LISTING STATUS

Then: run the first name in the advisor calculator (Chapter 4). If it's close, ask the client's CPA and a specialist for a side-by-side.

PART I · YOUR CLIENT

CHAPTER

01

The Incongruence

Linda had done everything right. *For six years she laddered her client's Roth conversions to the top of the 24% bracket and not a dollar more. Then he sold his warehouse in one December, and the whole gain landed in a single tax year. Nobody had asked whether it had to. Linda wasn't told until the wire arrived.*

You manage the drip. Nobody manages the flood. Most of an advisor's tax skill is spent on small, recurring decisions: which account to draw from, how much to convert, when to harvest a loss. They matter. They compound. But they are measured in thousands of dollars a year.

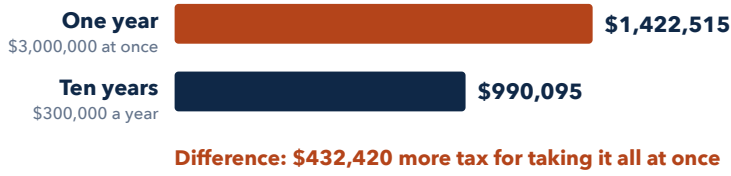
A client's exit is measured in hundreds of thousands, once.

The withdrawal test

Start with something every advisor already believes. A married couple in California has $150,000 of other income. They need $3,000,000 from a traditional IRA. Option one: take it all this year. Option two: take $300,000 a year for ten years.

THE WITHDRAWAL TEST

Pulling $3,000,000 from an IRA: one year or ten



Extra federal and California tax caused by the withdrawals (no 3.8% NIIT: IRA distributions are not investment income), married couple with $150,000 of other income, 2026 law. Engine run, not discounted.

Run through the 2026 tax engine, pulling the full $3,000,000 in one year costs **$1,422,515** in extra federal and California tax. Spreading it over ten years costs **$990,095** in total. The difference is **$432,420**, before counting a dollar of growth on the tax not yet paid. In a no-income-tax state, the gap is still **$347,731**.

Now make it a sale

Change one word. The $3,000,000 isn't an IRA. It's the gain on a building held twenty years, a business or the family farm. The same brackets, surtaxes and state tax apply. Long-term capital gain gets lower federal rates than an IRA withdrawal, but a big gain still climbs through the 15% and 20% brackets, usually triggers the 3.8% net investment income tax (Chapter 6 has the business-owner exception), and in California is taxed as ordinary income at rates up to 13.3%.

Yet the default is still "sell, close, pay the tax in April." All in one year.

That's the incongruence. The same client whose withdrawals you manage down to the bracket takes the largest taxable event of their life in a single tax year, often because nobody put a second option on the table.

Why it happens

- **The deal belongs to someone else.** The broker, the M&A intermediary and the attorney own the transaction. The advisor usually hears about it at closing, when the wire arrives.
- **Nobody is paid to slow it down.** The broker is paid at closing, and the CPA often sees the deal on the return.
- **"Installment sale" sounds like seller financing,** and seller financing sounds like risk: the client becomes the bank for a buyer who may not pay.
- **The advisor's incentive points the other way.** A wire at closing is assets under management tomorrow; a schedule is assets over years (Chapters 4 and 10).

TAKEAWAY

You already spread income; a client's exit is the biggest place to do it.

DO THIS NOW

- [ ] Search your book for clients who own real estate, a business or a farm worth $2,000,000 or more. Make a list.
- [ ] Next to each name, write the likely sale year and who on the deal team would hear about it first.
- [ ] At each one's next review, ask: "Are you thinking about selling anything in the next two years?"

CHAPTER

02

Why It Works

Ray and Ann, both 62, sell a $5,000,000 building with a $1,000,000 basis. *Same buyer, same price, same closing date. Two ways to get paid. Take the cash, and California and the IRS take $1,442,169 of the gain in one April. Take it over five years, and the tax on the gain falls to $1,190,467. The payments also carry interest, taxed as it arrives, and the client waits for the money. Whether that trade leaves the client ahead is the question this book answers.*

This chapter is the whole idea in one place: how the money moves, why spreading the gain cuts the tax, what the client keeps, and what it costs. Everything after it is detail.

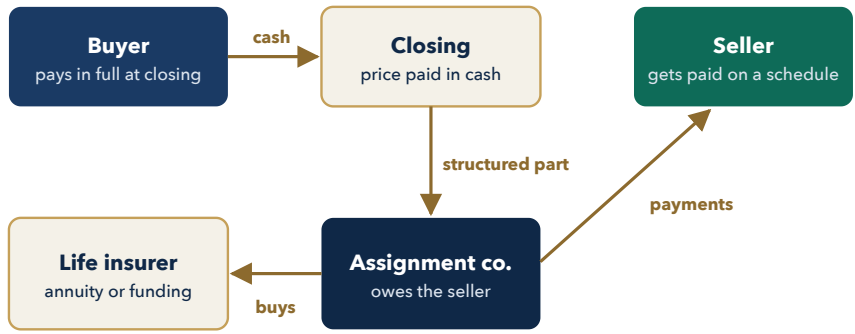
Section 453 in one paragraph

Section 453 has been in the tax code for decades. When a seller receives payments over more than one tax year, the gain is taxed as the payments arrive, not all in the year of sale. Each payment is part return of basis (not taxed), part gain (taxed) and part interest (ordinary income). The gain share of every payment is fixed by one ratio: gross profit divided by the contract price (IRC §453(c)). In Ray's sale that's $4,000,000 over $5,000,000, so 80% of every dollar of principal is gain.

How the money moves

THE MECHANICS

How a structured installment sale works



The seller never holds the buyer's note and cannot borrow against the funding.

Simplified. The structure is written into the purchase agreement before closing. The seller is paid by the assignment company, not the buyer.

1. **The buyer pays in full at closing,** with cash or normal financing. The buyer is gone.
2. **An assignment company takes on the obligation to pay the seller,** on a schedule the seller picks before closing. The seller never holds the buyer's note.
3. **The assignment company funds that obligation** with an annuity, or in some programs a funding agreement, from a highly rated life insurer. The seller doesn't own it and can't borrow against it.
4. **The seller receives the payments:** monthly or annual, level or rising, starting now or deferred. Each one is part basis, part gain and part interest, taxed as it arrives.

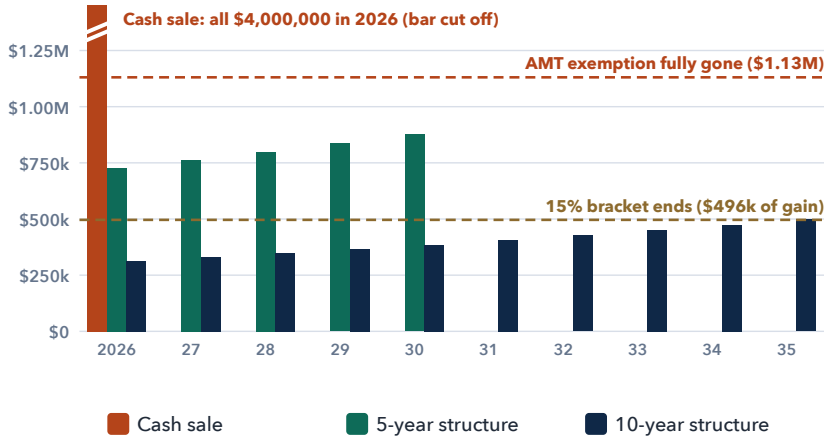
That's the difference from plain seller financing. In seller financing the client is the buyer's lender: default risk, foreclosure, early payoff. Here the buyer has paid and left, and the payments come from the assignment company. Seller financing still has its place when the buyer is strong and the price is better with terms.

Planning writers have drawn the same contrast. A 2024 Kitces.com article on deferred sales trusts pointed business sellers toward structured installment sales, noting that funding the note with an annuity from a large insurer "greatly reduces the credit risk assumed by the seller," and that spreading the gain can keep "the seller within the lower capital gains tax brackets." The same article names the trade-off plainly: the seller "can't use or invest any of the sales proceeds until they're actually received." That's the trade this book measures.

The gain arrives with the payments

WHY IT WORKS

Gain recognized each year vs. two tax thresholds



Long-term gain recognized each year, California couple, $150,000 of other income, $4,000,000 gain. Each payment carries the same share of gain (gross profit / contract price), so the gain lands a slice a year. Engine run, 2026 law.

Cash puts all $4,000,000 of gain into 2026. The payments are level, so the principal in each one, and the gain, rises a little every year. A 5-year structure puts about $728,000 to $876,000 into each of five years. A 10-year structure puts about $314,000 to $498,000 into each of ten.

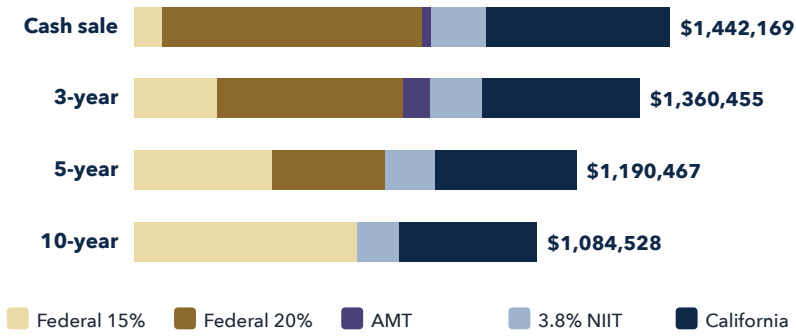
Now look at the two lines. Below the first, gain is taxed at 15% federal instead of 20%. Above the second, the alternative minimum tax exemption is gone entirely. The cash year blows through both. Nearly all of each 10-year

slice fits under the 15% line (the last year's runs about $2,000 over), before the note interest, which is taxed as ordinary income on top (Chapter 3).

Why that cuts the tax: one picture

WHY IT WORKS

Brackets, AMT, NIIT and state tax in one picture



Tax on the $4,000,000 gain only, by layer, summed over the schedule (note interest is taxed separately). Spreading moves gain from the 20% bracket into the 15% bracket, avoids the AMT, keeps some income under the 3.8% threshold and lowers the California rate. Engine run, 2026 law held flat.

Four things happen at once when the gain is spread:

- **Federal brackets.** More of the gain lands in the 15% bracket instead of 20%. For a married couple in 2026, the 15% bracket runs to $613,700 of taxable income.
- **The alternative minimum tax.** Since 2026 the exemption phases out from $1,000,000 of income at 50 cents per dollar. One big year triggers it ($23,660 for Ray and Ann). Smaller years can avoid it. It's a modest layer, but it's real.
- **The 3.8% net investment income tax** applies only to income above $250,000 for a married couple. For this couple, about $100,000 of room sits under that line every year. Spread the gain, and they use that room every year instead of once. Most of each year's gain is still over the line.
- **State tax.** California taxes gain as ordinary income, up to 13.3%. Smaller years mean lower brackets. In a no-income-tax state this layer is zero, and

the saving is smaller (Chapter 3).

The result for Ray: $251,702 less tax on the gain over five years, and $357,641 less over ten.

What the client keeps

CALIFORNIA, $5,000,000 SALE (NOMINAL DOLLARS, NOT DISCOUNTED)	CASH	5-YEAR	10-YEAR
Received, before tax	$5,000,000	$5,734,523	$6,554,076
Tax on the gain	$1,442,169	$1,190,467	$1,084,528
Tax on the note interest	(none)	$343,023	$589,304
Kept, after tax	$3,557,831	$4,201,032	$4,880,244

Careful: these columns aren't comparable as they stand. The cash seller has all $5,000,000 on day one and can invest it until the tax is paid at the end of the year; the structured seller gets money over time, and the extra dollars are interest on money not yet received. The fair comparison invests both at the same return, after fees, and asks who's ahead years later. That's Chapter 4.

The trade-offs, stated once

- **Liquidity.** Once the sale closes, the schedule can't be sped up, cashed out or borrowed against. For a sale this size, the net proceeds of a loan secured by the right to payments are treated as a payment (IRC §453A(d)). Money the client may need goes in a cash piece at closing.
- **Growth given up.** Money not yet received isn't invested. At high enough market returns, the cash sale wins (Chapter 5 finds the break-even).
- **Inflation.** Level payments lose purchasing power. A rising schedule helps, at a lower starting payment.
- **Counterparty.** Payments depend on the assignment company and the life insurer behind it, not on the market and not on the buyer. Check the insurer's financial strength in writing at the time of the sale.
- **No IRS ruling on the structure.** Section 453 is settled law. No published IRS ruling addresses the assignment structure itself, and in a different

arrangement Chief Counsel treated a note from someone other than the buyer as payment (Chapter 14).

- **Moving doesn't escape the state.** California taxes the gain on installment payments from California real property even after the seller moves away; the interest follows the seller to the new state (FTB Publication 1100, Example 7).
- **Medicare and other income-tested items.** Spreading the gain into Medicare years can raise premiums (Chapter 6).
- **Death during the schedule.** Remaining payments pass to heirs as income in respect of a decedent, with no step-up in basis (Chapter 7).
- **A commission.** The insurer pays the placing agent a one-time commission built into the payout rate. That's a conflict, disclosed in writing (Chapters 10 and 15).

Where it fits in a financial plan

It's a liquidity-event decision, not a product decision. It sits next to the Roth conversion schedule, the withdrawal order, the Medicare look-back and the client's spending plan. It works best for a large gain, a high-tax state, moderate other income and a client who doesn't need all the cash at once. Chapter 7 is the playbook; Chapter 8 runs six clients.

The rules that matter to an advisor

- **It must be set up before closing.** The structured-sale terms go into the purchase agreement. Once the seller has received the cash, it's too late.
- **Not every asset qualifies.** Publicly traded stock or securities can't use the installment method (IRC §453(k)(2)). Dealer property and inventory are excluded (IRC §453(b)(2)). Depreciation recapture (Section 1245 and the ordinary part of Section 1250) is taxed in the year of sale, whatever the schedule (IRC §453(i)). Unrecaptured Section 1250 gain on a building, taxed at up to 25%, can still be spread; it's recognized first, ahead of the 15% and 20% gain. Ray's example leaves out depreciation to keep the layers clean. Most buildings have it, and Chapter 8's landlord and doctor

do. So this is a tool for real estate, private businesses, farmland and other privately held assets.

- **Big notes carry an interest charge.** If more than $5,000,000 of installment obligations from the year's sales are outstanding at year end, Section 453A charges interest on the deferred tax on the excess. Farm property is exempt (IRC §453A(b)(3)). Ray's $5,000,000 example is below that after the first payment, so no charge applies. A larger price, a first payment pushed into the next year, or a second installment sale in the same year can trigger it.
- **Related buyers have their own rules** (IRC §453(e), §453(g)). A sale to family or a controlled entity needs its own review.
- **Program minimums.** Some programs require $100,000 to $500,000 per structure. A design with several pieces has to size each piece to clear it.

Shapes of a schedule

- **Short and level (2 to 5 years):** most of the money arrives quickly, and the gain is split across a few tax years.
- **Longer and level (6 to 15 years):** smaller slices of gain each year, often in lower brackets, but money under management builds slowly.
- **Deferred start:** first payment in a later year, for a client with a high-income year now and lower-income years coming.
- **Rising payments:** a fixed yearly increase, to offset some inflation.
- **Hybrid:** part cash at closing (taxed in the year of sale), part structured.

> **TAKEAWAY**
> Spread the gain, and less of it lands in the top layers of tax.

DO THIS NOW

- [ ] For each client on your list, write down the rough price, the basis and the depreciation taken, or ask the CPA for them.
- [ ] Mark the ones whose whole gain would land in one tax year on a cash sale.
- [ ] Note which of the trade-offs (liquidity, inflation, the payer, the IRS question, the commission) would rule a structure out for each one.

CHAPTER

03

The Tax Math

*"**Is three years enough?**" It's the first thing a CPA asks when a structure comes up. For Ray and Ann's $4,000,000 gain, the honest answer is no. Here's why, in numbers.*

One couple, one sale, four ways to get paid. Here is the example the rest of the book uses.

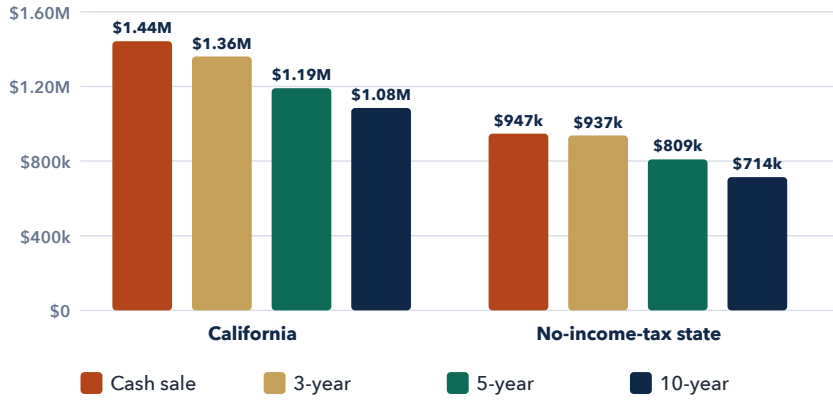
> **EXAMPLE**
>
> Ray and Ann, both 62, filing jointly. $150,000 a year of other income (a pension, part-time consulting, required distributions coming later). They sell investment property for $5,000,000 with a $1,000,000 basis: a $4,000,000 long-term capital gain. To keep the layers clean, there is no depreciation recapture and no selling cost. They either take cash at closing, or structure the whole $5,000,000 over 3, 5 or 10 years with level annual payments. We run it twice: as California residents, and as residents of a state with no income tax (Florida in the engine).

The note rates are illustrative: 4.5% for 3 years, 4.75% for 5 years and 5.25% for 10 years, each at or above the October 2026 applicable federal rate for its term (4.25% short-term, 4.61% mid-term, 5.22% long-term, Rev. Rul. 2026-19). A real quote will differ, and the rate matters (Chapter 5).

The tax on the gain

THE NUMBERS

Tax on a $4,000,000 gain: cash vs. three schedules



Federal (including AMT), 3.8% net investment income tax and state tax on the gain only; the tax on the note interest is separate. Married couple, $150,000 other income, 2026 law.

CALIFORNIA, $4,000,000 GAIN	TAX ON THE GAIN	SAVED VS. CASH
Cash at closing	$1,442,169	(starting point)
3-year structure	$1,360,455	$81,714
5-year structure	$1,190,467	$251,702
10-year structure	$1,084,528	$357,641

NO-INCOME-TAX STATE, $4,000,000 GAIN	TAX ON THE GAIN	SAVED VS. CASH
Cash at closing	$947,065	(starting point)
3-year structure	$937,195	$9,870
5-year structure	$809,025	$138,040
10-year structure	$714,114	$232,951

The California cash sale pays 36.1% of the gain in tax: $798,865 federal (including $23,660 of alternative minimum tax), $148,200 of net investment income tax and $495,104 to California.

Why three years barely helps here

A 3-year structure on a $4,000,000 gain still puts about $1,333,000 of gain in each year. That's far above the top of the 15% bracket (taxable income of $613,700 for a married couple in 2026), so most of the gain is still taxed at 20%. Worse, each of those three years is big enough to phase out the entire AMT exemption (it phases out from $1,000,000 of income at 50 cents per dollar in 2026), so the engine computes **$23,660 of AMT in each of the three years** instead of once. In the no-tax state that alone eats almost the whole saving.

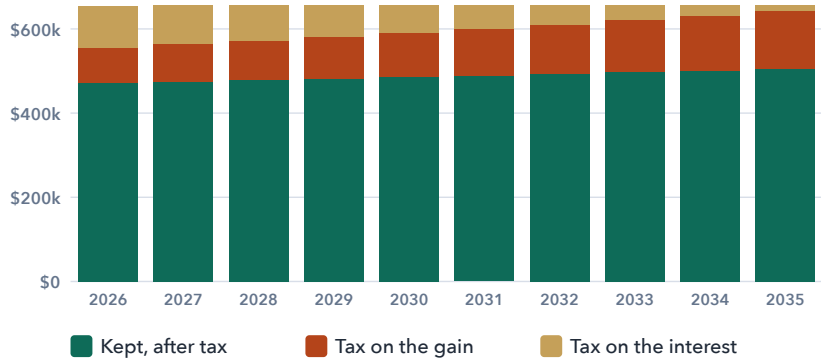
The lesson is general: **the schedule has to be long enough to change the bracket.** For a gain this size, that means five years or more. For a smaller gain, three years can be plenty (Chapter 11).

The interest is taxed too

Every structured payment carries interest, and the interest is ordinary income, taxed as it arrives and subject to the 3.8% surtax. Over 10 years in California, the couple receives $1,554,076 of interest and pays $589,304 of tax on it. That isn't a cost of the structure; it's a return on money the cash seller would have had to invest somewhere else (and pay tax on the income). But it means you can't compare "tax on the gain" alone. One more point a careful reader will catch. Each year's total tax is computed the way the law requires, with the capital gain taxed on top of ordinary income (IRC §1(h)). Splitting that total into "tax on the gain" and "tax on the interest" is only a label: the engine counts as interest tax whatever the interest adds on top of the gain. Split it the other way and more of the same total shows up on the gain line. The total tax and every wealth comparison in this book don't change. The next chapter compares what actually matters: money in the account.

THE NUMBERS

Where each 10-year payment goes (California)



Level payments of $655,408 a year at 5.25%. Early payments carry more interest, later ones more gain. Engine run.

TAKEAWAY

The schedule has to be long enough to change the bracket.

DO THIS NOW

- [ ] Pick one client from your list and get the last two tax returns.
- [ ] Write down the client's other income, filing status and state, and where the gain would sit: the 15% and 20% brackets, the 3.8% tax, the state rate.
- [ ] Ask the CPA how many tax years it would take to keep most of the gain out of the top layers.

CHAPTER

04

The Client's Math

Ann asked the question every good client asks. *"If we take the cash and invest the tax savings ourselves, don't we come out ahead?" Sometimes, yes. This chapter is how you find out, before you answer.*

Tax saved is not the test. Where the client ends up is. A cash sale lands in the account on day one. A structure lands in pieces, and the client gives up growth on the money not yet received. So the fiduciary question is not "how much tax is saved?" It's three questions, in this order:

1. At the same market return, after tax and after fees, where does the client end up?
2. How much money is under management each year?
3. How much fee does that produce, year by year and in total? (Chapter 10)

The assumptions

- **Cash sale:** the whole price ($5,000,000) is invested at closing, and the tax on the sale ($1,442,169 in California) leaves the account at the end of the sale year.
- **Timing, the same on both sides:** money received at closing is invested at closing, and each year's tax, the sale year's included, is paid at that year's end. That's the convention the tax engine and the calculator use. Paying the cash sale's tax at closing instead would charge its large bill a year early and tilt the comparison toward the structure. Real due dates fall on both sides of year end: estimated payments during the sale year would shift the result a little toward the structure, a prior-year safe harbor that defers most of the bill to April a little toward the cash sale.

- **Structure:** each payment is invested when it arrives, after that year's tax on the gain and the interest.
- **Same market return on both sides:** 6% a year gross, before fees. An assumption, not a forecast.
- **Advisory fee:** 1% a year of assets under management, charged at each year end.
- **No tax on portfolio growth, on either side.** This favors the cash sale, because the structure's interest is taxed every year while the cash seller's growth is not taxed here at all. Real portfolios pay some tax on income and realized gains; the cash side would pay more of it early, because it has more money invested early.
- **No commission is added on top.** The note rates are the rates the seller would receive, with any commission already built in. A program that pays more commission may quote a lower rate, which is why you compare quotes.

The client first

CLIENT AHEAD (BEHIND), CALIFORNIA, 6% GROSS, 1% FEE	YEAR 10	YEAR 20
3-year structure vs. cash	($171,387)	($277,580)
5-year structure vs. cash	$22,479	$36,408
10-year structure vs. cash	$229,636	$371,922

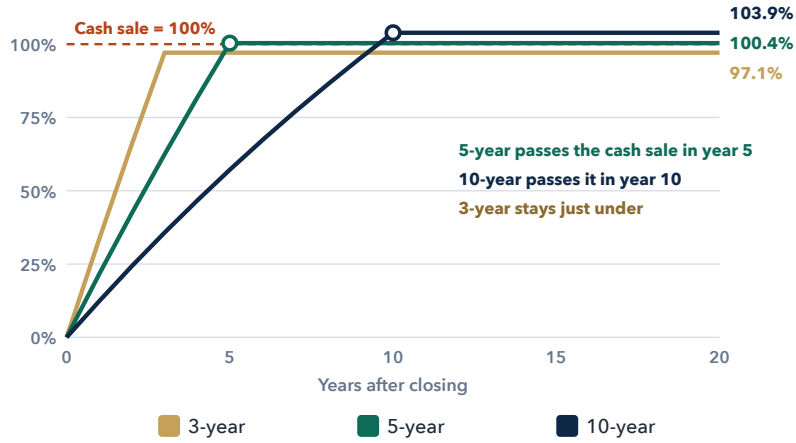
At the same market return, the 5-year and 10-year structures leave the California couple wealthier: **$36,408 and $371,922 ahead at year 20.** Be plain about the 5-year number: it's about a third of one percent of the account, well inside the error of any 20-year assumption, and Medicare surcharges erase it (Chapter 6). The 10-year lead is real. The 3-year structure leaves them $277,580 behind, because it barely cut the tax (Chapter 3) and the client gave up two years of market growth on the money not yet received.

In the no-income-tax state, only the 10-year structure comes out ahead at 6% ($184,201 at year 20). The 5-year structure is behind (minus $135,669) and the 3-year further behind (minus $365,614).

Assets under management, year by year

THE NUMBERS

Assets under management vs. the cash sale (California)



Each structure's account as a percent of the cash sale's, each year end. Cash sale: the whole price invested at closing, its tax paid at the end of year 1. 6% gross return, 1% fee, no tax on portfolio growth on either side. Assumptions, not a forecast.

CALIFORNIA, 6% GROSS, 1% FEE	CASH SALE	3-YEAR	5-YEAR	10-YEAR
At closing	$5,000,000	$0	$0	$0
End of year 1	$3,804,831	$1,276,803	$820,547	$471,479
End of year 3	$4,190,033	$4,067,744	$2,615,304	$1,495,455
End of year 5	$4,614,233	$4,479,563	$4,631,897	$2,637,728
End of year 10	$5,872,254	$5,700,868	$5,894,734	$6,101,891
End of year 20	$9,510,766	$9,233,186	$9,547,173	$9,882,688

Three things stand out.

The structure starts behind. The cash account holds the whole $5,000,000 for the sale year and pays the $1,442,169 tax out of it at year end, leaving $3,804,831; the 10-year structure's account holds $471,479. For years, there is less to manage.

Short structures fill the account fast. By the end of year 3, the 3-year structure has 97.0% of the cash sale's assets under management ($4,067,744 against $4,190,033). The 5-year structure passes the cash sale in year 5, when its last payment lands.

Longer structures end bigger. The 10-year structure passes the cash sale in year 10 ($6,101,891 against $5,872,254) and stays ahead: $9,882,688 against $9,510,766 at year 20. The tax that wasn't paid up front ends up in the account.

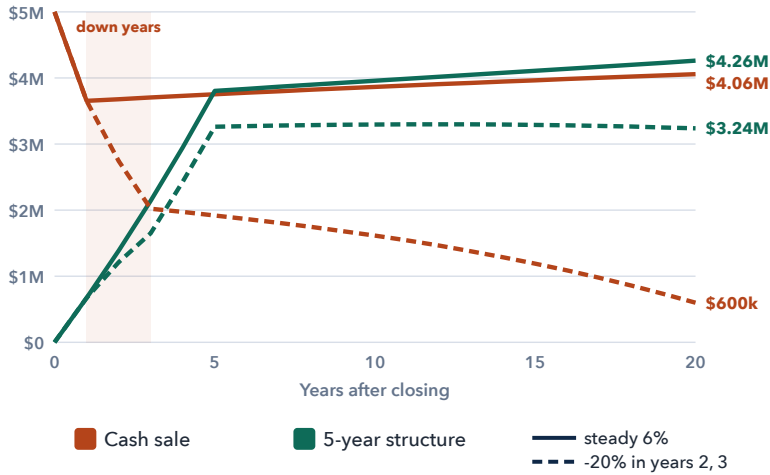
If the client lives on the money

The comparison above, like most you'll see, assumes the proceeds sit untouched for twenty years. Many sellers will live on them. So run it again with Ray and Ann spending $150,000 a year, after tax, from the sale.

- **Cash sale:** the spending comes out of the account each year. To net $150,000, the account sells holdings, and the gain share of what it sells is taxed. We assume 25%, roughly the 15% federal capital-gain rate plus California's.
- **Structure:** each year's payment, after its own tax, pays the spending first, and anything left over goes into the account. Once the payments end, spending comes out of the account the same way as the cash sale's.
- **Same 6% gross return and 1% fee on both sides.** A stress test drops the market 20% in each of years 2 and 3; a mirror test raises it 20%.

THE NUMBERS

If the client lives on it: $150,000 a year (California, $5M sale)



Account value at each year end. Both sides spend $150,000 a year after tax: the cash sale from the account (25% tax on the gain share of what it sells), the structure from its payments first. Solid: 6% gross every year. Dashed: the market falls 20% in each of years 2 and 3, then 6%, on both sides. 1% fee. Advisor calculator model. Assumptions, not a forecast.

CALIFORNIA, $150,000 A YEAR SPENT, 6% GROSS	CASH SALE	5-YEAR	10-YEAR
Account, end of year 3	$3,704,349	$2,142,708	$1,022,858
Account, end of year 10	$3,864,850	$3,958,738	$4,220,482
Account, end of year 20	$4,058,481	$4,260,557	$4,730,290
Tax on gains sold to spend, through year 20	$367,452	$270,875	$184,584
Client ahead (behind) at year 20, after tax	base	$230,524	$693,678
Same, if years 2 and 3 fall 20%	base	$2,246,625	$3,125,781
Same, if years 2 and 3 rise 20%	base	($1,098,138)	($892,550)

"After tax" means each account less 25% of its unrealized gain: what the client would keep if it were all sold. Every stress-test row compares the structure with a cash sale that lived through the same market.

Three things change. One doesn't.

What doesn't change: the dollar gap in the account. Spending comes out of both sides in the same amounts at the same times, so at a steady return it lowers both accounts by about the same dollars. Leave out the tax on what's sold and the model gives exactly the untouched answer, $36,408 ahead on the 5-year schedule. The structure's account still starts smaller: at year 3 it holds 58% of the cash sale's on the 5-year schedule, against 62% when nothing is spent.

What changes: tax on the spending. The cash seller sells appreciated holdings every year to live, and owes tax on the gains: $367,452 through year 20. The structured seller lives on payments whose tax is already counted, and owes $270,875 (5-year) or $184,584 (10-year), mostly after the payments end. That moves the 5-year result from $36,406 to $230,524 ahead after tax, and the 10-year from $371,922 to $693,678. The break-even return rises to about 6.7% and 7.4%. Read it as a modeling result, not a law of nature: the base model never taxes portfolio growth, and spending brings some of that tax to the surface on the cash side first. A cash seller who funds spending from a cash or bond sleeve, or sells high-basis lots first, realizes less gain and narrows this lead.

What changes: how much is in the market early. If the market falls 20% in each of years 2 and 3, the cash seller has the whole sale in it; the structured seller has only the payments received so far, and the rest arrives on schedule. The structure ends $2,246,625 (5-year) to $3,125,781 (10-year) ahead after tax, and the cash account, drawn down through the slump, is down to $599,623 at year 20. The mirror is just as real: if those two years rise 20%, the cash sale wins by $1,098,138 (5-year) and $892,550 (10-year). Neither is a forecast. Together they show what a structure is: less money in the market in the first years, with the rest owed by the assignment company and the insurer behind it.

Be fair to the cash sale. Few advisors would put a retiree's next few years of spending in stocks. A cash sale with a bond ladder or a cash reserve for spending cuts its sequence risk too, at a lower expected return. The honest comparison is the structure against the cash sale at the allocation you would actually use; the advisor calculator's stress test is a starting point, not the an-

swer. Two more limits: fixed payments don't grow, so a spending need that rises with inflation falls harder on the account once the schedule ends; and nothing here changes the Medicare surcharges of Chapter 6.

Why raise it

- **Because it's the client's money.** If the structure leaves the client hundreds of thousands of dollars ahead, the fiduciary answer isn't close.
- **Because the account ends larger.** From the year the last payment lands, you manage more than you would have. The client's heirs inherit a larger account.
- **Because the alternative often isn't your account at all** (Chapter 9 is the relationship side). Many sellers of real estate default to a 1031 exchange into another property or a Delaware statutory trust. That money may never come under management. A structure defers too, and can let the client net more than a cash sale without needing another property: no replacement to find, no tenants. It brings the proceeds into the account on a schedule.
- **Because the client will find out.** A seller who learns after closing that a second option existed will ask why the team never raised it.

TAKEAWAY

Judge it by where the client ends up, not by the tax saved.

DO THIS NOW

- [ ] Run that client in the advisor calculator at the return you'd actually plan on, with your real fee.
- [ ] Write down the break-even gross return for each schedule. If your planning return is above it, the answer is likely cash.
- [ ] If the client will live on the proceeds, enter the spending and run the down-market test too.

CHAPTER

05

What Moves the Answer

"***What if the market does 8%?***" *Every client asks it, and they should. Here is the honest answer, and it isn't always the one a specialist wants to give.*

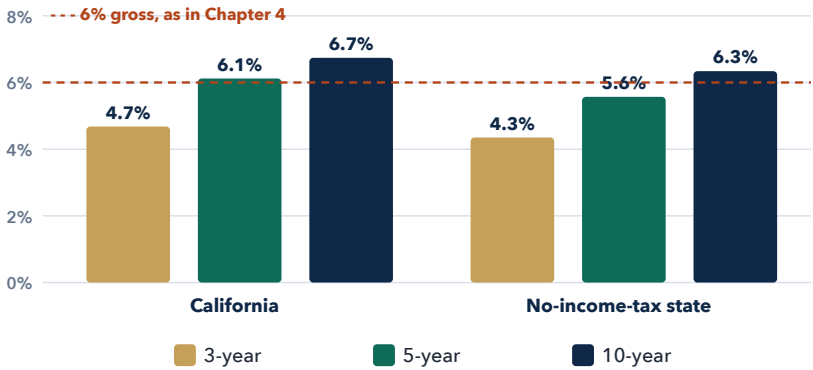
Three numbers decide it: the market return, the note rate and the fee. Everything in Chapter 4 used 6% gross and a 1% fee. Change them and the answer moves.

The market return

The structure wins when the tax it saves, plus the interest it earns, beats the growth the cash seller gets by investing the whole price on day one and keeping the after-tax amount invested from the end of the first year. So the higher the market return, the harder it is for the structure to win.

THE NUMBERS

The market return at which cash catches up



Gross return (before the 1% fee) at which the structure and the cash sale end even at year 20. Below it, the structure leaves the client ahead.

CLIENT AHEAD AT YEAR 20, CA, 1% FEE	4%	5%	6%	7%	8%
3-year	$100,408	($56,623)	($277,580)	($580,002)	($985,391)
5-year	$448,723	$281,454	$36,408	($308,020)	($778,253)
10-year	$1,011,115	$749,790	$371,922	($152,682)	($860,549)

(Parentheses) = behind. The break-even gross return, where the structure and the cash sale end even at year 20, is about 4.7% for 3 years, 6.1% for 5 years and 6.7% for 10 years in California. In the no-tax state it's about 4.4%, 5.6% and 6.3%.

Read it as a planning question, not a forecast: **would you build this client's plan on a gross return above those numbers, every year, on money they may be drawing from?** For a retiree with a spending need and a balanced allocation, many advisors would say no. For a younger client with a long horizon and an all-equity allocation, the cash sale may win.

The fee

10-YEAR STRUCTURE, CALIFORNIA, 6% GROSS	0.5% FEE	0.75%	1%	1.25%	1.5%
Client ahead at year 20	$111,488	$247,270	$371,922	$486,095	$590,408

A higher fee makes the structure look better, not worse. The fee lowers the net return on the cash seller's larger account from day one, while the structure's money isn't billed until it arrives. What really matters is the net return after fees.

The note rate

The rate the structure pays matters as much as the market. For the 10-year structure in California, moving the note rate from 5.25% to 5.75% moves the client from $371,922 ahead at year 20 to $556,162 ahead, and the break-even market return from 6.7% to 7.1%. For the 5-year structure, 4.75% versus 5.25% is the difference between $36,408 and $105,879 ahead; at 4.25% the client would be $36,438 behind. Rates are set when the structure is quoted, before closing; a stated rate below the applicable federal rate doesn't hold: the tax law imputes interest at the AFR (IRC §§483, 1274). Get two quotes.

TAKEAWAY

Run it at the return you'd actually plan on, not the best case.

DO THIS NOW

- [ ] Rerun the same client at a lower and a higher return than your plan.
- [ ] Rerun it at your actual fee and at the note rate from two quotes, not one.
- [ ] Write down which change flips the answer. That's the conversation to have with the client.

CHAPTER

06

Beyond the Tax Bill, and What It Costs

Two years after the sale, the Medicare letter arrived. *The client had saved on income tax and was now paying the top premium surcharge, because nobody had mapped the look-back.*

The income tax is the biggest number. It isn't the only one. A sale year moves a client's income, and income drives more than brackets. Some of these effects favor spreading. Some favor getting it over with. An advisor should know both.

Where spreading can help

- **Sequence of returns.** Fixed payments cover early spending whatever the market does. A different risk, not a better investment (Chapter 7).
- **The alternative minimum tax.** Since 2026, the AMT exemption phases out from $1,000,000 of alternative minimum taxable income for a married couple at 50 cents per dollar, so it is gone above about $1,280,400. The gain keeps its capital-gain rates in the AMT, but a big sale year can wipe out the exemption and trigger AMT through the phase-out, as it does for Ray ($23,660). Spreading the gain into years under that level can avoid it, as the 5-year and 10-year structures do in Chapter 3 (the engine computes it year by year). Too short a schedule can trigger it every year.
- **The net investment income tax.** The 3.8% surtax applies to the lesser of net investment income or the amount of income above $250,000 for a married couple (not indexed). Spreading rarely escapes it for a large gain, but it can for a smaller one. An owner who materially participates in a business generally doesn't owe it on the gain from the business's operating assets. On a sale of a partnership interest or S corporation stock, the exclusion runs through a look-through of the entity's assets (IRC

§1411(c)(4)); C corporation stock gets none. The note's interest is investment income either way.

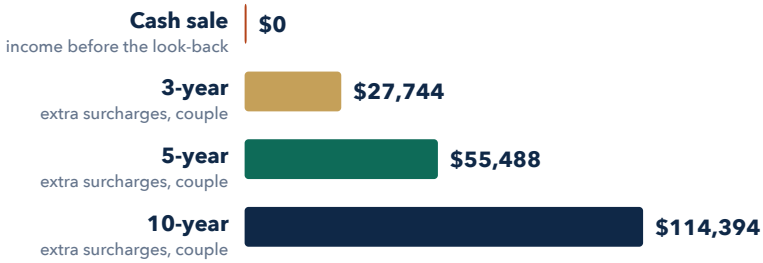
- **Social Security and the ACA.** A sale year can make up to 85% of Social Security benefits taxable, and for a client under 65 buying their own health coverage, it can wipe out the premium tax credit. For a client whose other income is modest, spreading can keep these intact. For the couple in our example, $150,000 of other income already puts them past both, so neither moves.
- **State tax.** California taxes gain as ordinary income, with brackets up to 12.3% plus a 1% surcharge above $1,000,000. Spreading keeps more of the gain out of the top brackets. Under current law California's top three brackets are scheduled to end after 2030; our numbers keep today's rates in every year.

Where spreading can hurt

- **Medicare premiums (IRMAA).** Medicare's income surcharge is based on income from two years earlier, in tiers. In 2026, surcharges start above $218,000 of income for a married couple, and the top tier starts at $750,000. The top-tier surcharge in 2026 is $578 a month per person for Part B and Part D together. A single sale year costs at most one year of surcharges, and none at all if it falls before the look-back reaches Medicare age. **Spreading the gain into Medicare years can cost more than it saves on this line.**

THE OTHER SIDE

Medicare surcharges: where spreading costs more



Couple 62 at a 2026 sale, both on Medicare from 65; premiums use income from two years earlier. Only the sale's own income counted; 2026 CMS tiers held flat.

For our California couple (62 at the sale, on Medicare at 65), the cash sale's income lands in a year Medicare never looks at. Counting only the sale's own income, the structures add Medicare surcharges of about **$27,744** (3 years), **$55,488** (5 years) and **$114,394** (10 years), using the 2026 tiers. Taking those surcharges out of the account in the years they're paid, along with the growth they would have earned, the 10-year structure still leaves the client ahead at year 20 ($166,313). The 5-year structure's thin lead turns into a loss (minus $75,402), and the 3-year falls further behind (minus $336,178). For this couple, Medicare decides the 5-year question. A sale at 55 would look different from a sale at 62. Map the look-back before choosing the schedule.

- **The SALT deduction.** For 2026 the state and local tax deduction is capped at $40,400, reduced by 30% of income above $505,000, but never below $10,000; from 2030 it returns to $10,000. Spreading a large gain can keep income above the threshold for several years instead of one. For itemizers this is usually a small line, but it runs the wrong way.

Losses, carryforwards and death

The trade-offs (liquidity, inflation, counterparty, the IRS question, the commission) are stated once, in Chapter 2, and the estate points in Chapter 7. Two tax side effects belong here:

- **Suspended passive losses usually go first, not slowly.** The building's own gain absorbs its suspended losses as the gain is recognized, the way

Form 8582 computes it, so on a gain sale they're often used up in the first payment year or two. Only a loss left over after that is released in proportion to the gain (IRC §469(g)(3); Form 8582 instructions, Dispositions; IRS Pub. 925). The losses are ordinary deductions and the gain keeps its character (Temp. Reg. §1.469-1T(d)(1)), so in the federal capital-gain computation the losses come off income taxed at ordinary rates while the gain keeps its lower rates. Chapter 8's doctor shows it.

- **Capital loss carryforwards and death.** A carryforward can absorb each year's gain, but it dies with the client, and payments still owed at death get no step-up (Chapter 7). For an older client, run the death case.
- **The rest of the return.** Net operating losses, investment interest, charitable carryforwards and the §461(l) cap each react to the timing too. Chapter 18 sorts them into four groups and shows how to size the closing cash to them.

TAKEAWAY

Run the side effects with the tax, not after it.

DO THIS NOW

- [ ] Ask each client on your list for last year's Form 8582 and every K-1. Write down the passive pool and the suspended losses, property by property.
- [ ] Note any capital loss carryforward on Schedule D.
- [ ] For clients on Medicare or within two years of it, put the sale and payment years next to Medicare's two-year look-back.
- [ ] For an older client, run the death case.

CHAPTER

07

The Planning Playbook

Mark heard about the sale eighteen months early, *at a routine review, when his client mentioned that a competitor had called about buying the business. By the time the letter of intent arrived, the side-by-side was done, the CPA had checked it and the cash the client needed at closing was set aside. That's the playbook.*

A structured sale is not a product decision. It's a liquidity-event decision, the same kind of call you make when you set a Roth conversion schedule or a withdrawal order. It belongs in the plan, next to everything else the sale touches.

This chapter is the map: when to raise it, how to show its value the way you'd show any planning value, and how it fits with the rest of the client's plan.

The liquidity-event timeline

WHEN	PLANNING QUESTION	WHO LEADS
24 to 12 months out	Is a sale likely? What's the gain, and what else lands in those years (retirement, Medicare, required distributions)?	You
12 to 3 months out	Side-by-side: cash, a note from the buyer, a structure, and where they fit a 1031, a charitable remainder trust or an opportunity-zone deferral (check the timing; the opportunity-zone rules change after 2026). What cash does the client need at closing?	You and the CPA, with a specialist
Before the purchase agreement is final	Structure terms written into the agreement. Two quotes, each piece above the program minimum.	Attorney and specialist
Closing	Cash piece to the account. Schedule confirmed in writing.	The deal team
Every year after	Each payment invested as it lands. Brackets, IRMAA, Social Security and conversions re-checked against the schedule.	You

The window closes at the purchase agreement. After the client has the cash, there is nothing to design.

Show it like tax alpha

You already measure planning value after tax: asset location, withdrawal order, loss harvesting, Roth conversions. Vanguard's Advisor's Alpha research put the value of that kind of advice at "about 3% in net returns," and stressed that it doesn't arrive evenly. An exit is the extreme case: one decision, once, worth more than years of smaller ones. Measure it the same way. The question is not "how much tax is saved?" It's "where does the client end up, after tax and after fees, at a return we'd actually plan on?"

That's what this book reports for every example: the client's account at years 10 and 20, the break-even gross return at which the cash sale catches up, and the result at a lower and a higher return. In the main California example, the 10-year structure leaves the client $371,922 ahead at year 20 at 6%, and the

cash sale wins only above about 6.7% gross every year; the 5-year structure is $36,406 ahead, and cash wins above about 6.1%. That's a statement a client can understand and a CPA can check.

Coordinate it with the rest of the plan

- **Brackets and Roth conversions.** A structure fills brackets in each payment year. That's the point, but it's the same bracket room a Roth conversion would use. In most structured years, conversions wait or shrink. A deferred-start schedule can leave a low-income gap for conversions first. Model both together.
- **Medicare (IRMAA).** Premiums use income from two years earlier. A sale at 62 lands before the look-back reaches Medicare age; a schedule that runs into the Medicare years adds surcharges (Chapter 6). Map the look-back year by year before picking the term.
- **Social Security.** Payments add to provisional income, so more of the benefit can be taxed, up to 85%. For a client already at the 85% level, nothing changes. For a client with modest other income, it can, and the claiming decision belongs in the same model.
- **Health coverage before 65.** A large sale year can wipe out a premium tax credit for a client buying their own coverage. Spreading rarely saves it on a large gain, but on a smaller one it can.
- **Required distributions.** A schedule that ends before required distributions begin keeps those later years open.
- **Charitable giving.** A deduction is worth more in a high-bracket year. If the client plans a large gift, the cash sale year and the structure years value it differently, and percentage-of-income limits apply. Let the CPA size it.
- **The alternative minimum tax.** A large sale year can trigger it through the exemption phase-out; a schedule that keeps each year under the phase-out can avoid it (the 5- and 10-year schedules in Chapter 3 owe none, computed year by year). A schedule that's too short can trigger it every year (Chapter 3).

How the work gets paid

- **Fee-only, on assets.** Your fee applies to each payment as it lands in the account, and to the cash piece at closing.
- **Fee-only, as a project.** Some fee-only firms bill a separate planning or project fee for exit analysis, while an outside licensed specialist handles the insurance side. Nothing flows from the specialist to you, so the label holds.
- **Fee-based or life-licensed.** A disclosed commission, or a share of the placing agent's commission, may apply if you're licensed and appointed (Chapters 10 and 15). Under the CFP Board's Standards, a CFP® professional who earns commissions can't describe their compensation as fee-only.

Whichever applies, check with your compliance department before you rely on it.

Sequence risk and the spending bucket

A cash seller invests a lump sum on one day and draws from it in whatever market follows. A structured seller receives fixed payments on a schedule, whatever the market does. For a client who will spend from the proceeds, the early years of spending are covered by payments that don't depend on the market.

That isn't a reason to call the structure a better investment. It's a different risk: the payments depend on the assignment company and the life insurer behind it, not on markets, and they're fixed, so inflation erodes them. How you count the schedule inside the client's allocation is your call, not ours. Many planners will see it as a fixed-income-like stream with a single credit exposure, and size the rest of the portfolio around it.

Estate and the next generation

- **Payments continue to heirs** if the client dies during the schedule. They're income in respect of a decedent, taxed as received, with no step-up in basis (IRC §§691(a)(4), 1014(c)). If federal estate tax was actually

paid on them, the heirs may be able to deduct the share attributable to those payments (IRC §691(c)); most estates owe none, so most heirs get no such deduction.

- **Holding until death is a different question.** Property held until death gets a step-up in basis. For an older client in poor health who could hold, selling at all may be the wrong first question.
- **Capital loss carryforwards end with the client.** They can't pass to the estate, so a client with a large carryforward and a short horizon may do better recognizing the gain sooner (IRS Pub. 559).
- **The account that passes is larger** when the structure wins. So is the chance to serve the next generation, if you earned it.
- **Estates over the line.** For a client above the $15,000,000 per-person exemption (2026, Rev. Proc. 2025-32 §2.14), the payment schedule can fund annual gifts to a life insurance trust (Chapter 20).

Where it doesn't fit

- **The client needs the money.** Liquidity goes in the cash piece. Once the sale closes, the schedule can't be sped up, cashed out or borrowed against.
- **The gain is small** or already sits in the 15% bracket. There's nothing to spread (Chapter 8, "When cash wins").
- **High ordinary income continues.** Note interest is taxed at the client's top rate. A client still earning at the top of the brackets keeps little of it (Chapter 8, the doctor).
- **A long horizon and an all-equity plan.** The higher the return you'd plan on, the harder it is for the structure to win (Chapter 5).
- **The asset doesn't qualify.** Publicly traded stock, dealer property and inventory are out, and depreciation recapture is taxed in the year of sale (Chapter 2).

TAKEAWAY

It's a liquidity-event decision; plan it like one, and drop it when the numbers say cash.

DO THIS NOW

- [ ] Put each likely sale on the client's plan with a date and the next action owed.
- [ ] Write down the cash to keep at closing: one to two years of spending, any known purchase and the year-one tax.
- [ ] Book a meeting with the client's CPA before the purchase agreement is drafted.

CHAPTER

08

Six Clients

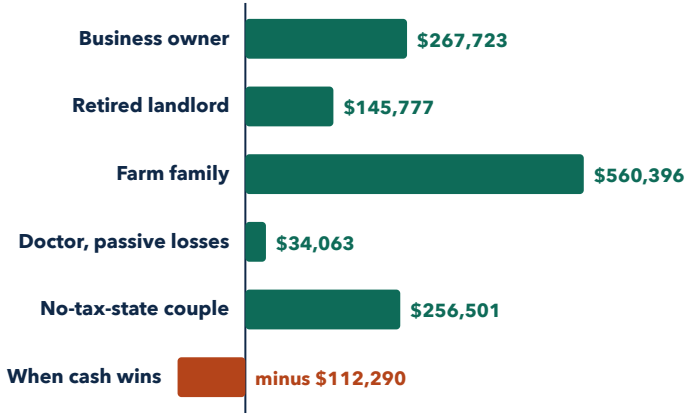
Six clients walk into six offices. *Same tool, six different answers. Five come out ahead with a structure, one of them only narrowly. One should take the cash. Here are all six, numbers first.*

Each case asks the same three questions: what does the client keep, where does the client end up, and what does it mean for your practice? A variation on the doctor shows how one change in income flips the answer.

Every number here comes from the same model as the companion advisor calculator (installmentsalecalculator.com/advisor-calculator/): the 2026 tax engine, a 6% gross return on both sides, a 1% fee on the year-end balance, no tax on portfolio growth on either side (which favors the cash sale), level annual payments, and the illustrative note rates of Chapter 3. Social Security is entered as Social Security, not folded into other income: the model taxes up to 85% of it each year under IRC §86, counting the sale gain and note interest in that year's test, and California doesn't tax it. Enter the inputs shown and the calculator returns the same results, except where a case notes an input the calculator doesn't take. The advisor rows show fees only, and fees plus an illustrative 3% commission. Only a licensed, appointed agent can be paid a commission, it must be disclosed, and once the rate is quoted it doesn't change the client's numbers.

SIX CLIENTS

Six clients at a glance



Client ahead (right) or behind (left) at year 20, structure vs. cash sale

Each client's account at year 20 with the structure minus with the cash sale, 6% gross return, 1% fee. Same model as the advisor calculator.

1. The business owner

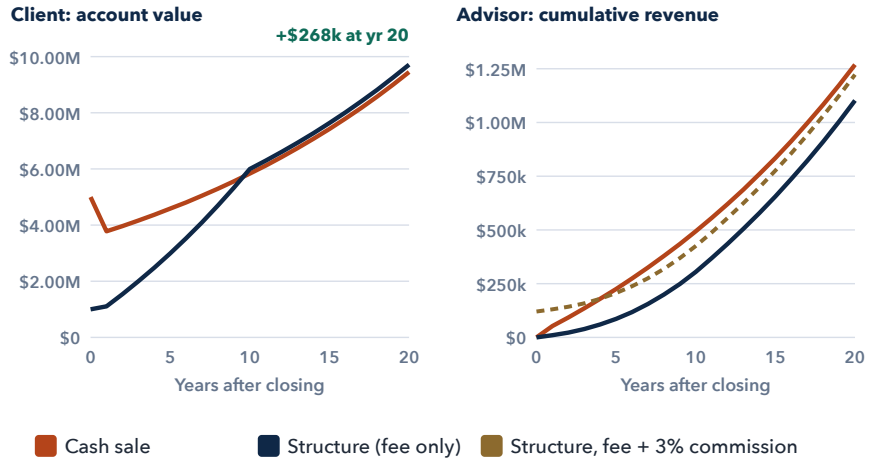
EXAMPLE

Dan and Maria, 58, California. Dan is selling the stock of the S corporation he runs and materially participates in, for $5,000,000; their basis is $500,000. They have $200,000 a year of other income. They want $1,000,000 in cash at closing for a new home and a cushion, and structure the other $4,000,000 over 10 years at 5.25%.

THE BUSINESS OWNER	CASH SALE	STRUCTURE
Tax on the gain	$1,467,128	$1,170,364
Tax saved	base	$296,764
Account, year 10	$5,833,734	$5,999,035
Account, year 20	$9,448,377	$9,716,101
Client ahead (behind), year 20, at 4% / 6% / 8% gross	base	$787,352 / $267,723 / ($729,546)
Advisor: fees through year 20, fee only	$1,269,319	$1,102,583
Advisor: fees + 3% commission through year 20	$1,269,319	$1,222,583

WORKED EXAMPLE

The business owner



CA, age 58, $5,000,000 sale, 10-year structure at 5.25%, $1,000,000 cash at closing. 6% gross, 1% fee, no tax on portfolio growth either side. Commission is illustrative, needs a license and appointment, and is paid by the insurer, not the client.

For the client. The structure cuts the tax on the gain by $296,764 and leaves the couple $267,723 ahead at year 20 at 6%. Because Dan is active in the business, the gain on his stock escapes the 3.8% net investment income tax to the extent the look-through in IRC §1411(c)(4) traces it to the company's active operating assets; the model assumes all of it does. The note interest is

still subject to the tax. The break-even gross return is about 6.7%. The 10-year schedule runs into their Medicare years and adds about $63,552 of surcharges, which the planning conversation should show next to the tax saving.

For your practice. The $1,000,000 cash piece comes under management at closing. The structured account passes the cash sale's in year 10. Fee only, cumulative fees trail the cash sale by $166,736 through year 20 and catch up only in year 49; with a 3% commission ($120,000), the gap at year 20 is $46,736. The bigger practice story is the alternative: owners who sell often move their proceeds wherever the deal team points them. The advisor who planned the exit keeps the relationship.

Planning notes. An asset sale and a stock sale are taxed differently; equipment recapture is taxed in the year of sale; a sale to family or a controlled entity has its own rules. In the calculator, which applies the 3.8% tax to every gain, the same inputs show a $313,864 tax saving and $371,212 ahead; the active-business exclusion is the difference.

2. The retired landlord

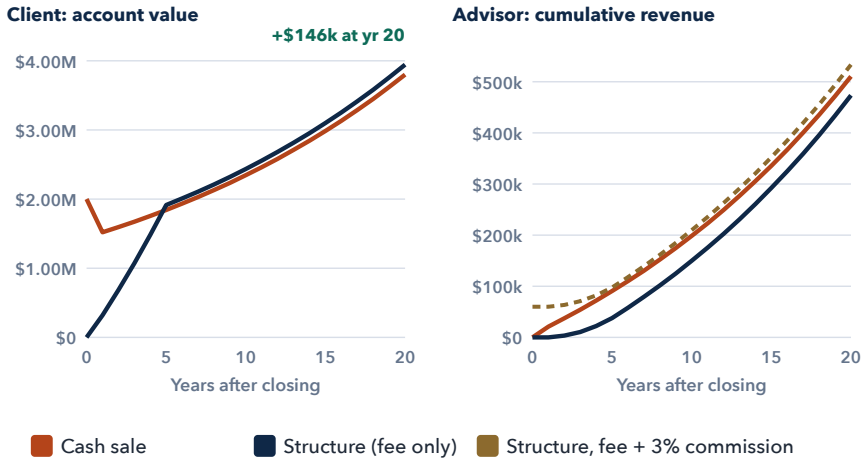
EXAMPLE

Ed and Carol, 68, California, on Medicare. They are selling a rental they've held for decades for $2,000,000. Their adjusted basis is $400,000, after $300,000 of depreciation. Other income is $90,000 of pensions and IRA withdrawals, and they receive $60,000 a year of Social Security. A 5-year structure at 4.75%.

THE RETIRED LANDLORD	CASH SALE	STRUCTURE
Tax on the gain	$578,845	$449,798
Tax saved	base	$129,047
Account, year 10	$2,345,851	$2,435,858
Account, year 20	$3,799,365	$3,945,142
Client ahead (behind), year 20, at 4% / 6% / 8% gross	base	$275,583 / $145,777 / ($133,126)
Advisor: fees through year 20, fee only	$510,304	$473,575
Advisor: fees + 3% commission through year 20	$510,304	$533,575

WORKED EXAMPLE

The retired landlord



CA, age 68, $2,000,000 sale, 5-year structure at 4.75%. 6% gross, 1% fee, no tax on portfolio growth either side. Commission is illustrative, needs a license and appointment, and is paid by the insurer, not the client.

For the client. The structure saves $129,047 of tax and leaves the couple $145,777 ahead at year 20, with a break-even gross return of about 7.2%. The account passes the cash sale's in year 5, when the last payment lands. Because they're already on Medicare, the spread years add about $49,680 of surcharges. Even after that, the structure leaves them ahead.

For your practice. This is the profile where a structure and a fee-only practice line up best. Cumulative fees trail by $36,729 at year 20, the annual fee passes the cash sale's in year 6, and cumulative fees catch up in year 37. With a 3% commission ($60,000), the advisor is ahead of the cash sale in every year, checked year by year.

Planning notes. The tired landlord's default is often another 1031 exchange or a Delaware statutory trust: more property, and proceeds that never reach the plan. A structure is a way out of landlording that keeps the money in the plan, and here it leaves the couple ahead of a cash sale without needing another property.

DELAWARE STATUTORY TRUST BASICS

A Delaware statutory trust owns one or more large properties (apartments, warehouses, medical offices) and sells fractional interests in them. Because those interests can count as real estate for a 1031 exchange, a seller can buy one as the replacement property. **Why clients like it:** no tenants or repairs, a share of a larger professionally managed building, and the gain stays deferred. **The trade-offs:** it's illiquid, usually until the sponsor sells, on the sponsor's timing; fees and markups come off the top; the client depends on the sponsor's skill and finances; and it's sold only by securities-licensed representatives. I don't sell securities. If a client is weighing one, compare its income after fees with a structure's payments, and have the CPA check both.

WHEN THE TRUST CONVERTS TO A REIT: THE 721 ROUTE

Some Delaware statutory trust offerings add a second step. After a holding period set in the offering documents, often two years or more, a REIT's operating partnership can acquire the trust's property in exchange for operating partnership units (IRC §721). **What it can do:** the gain stays deferred, the client moves from a few buildings to a broader portfolio, and if the client still holds the units at death, heirs generally get a stepped-up basis (IRC §1014). **The trade-offs:** units aren't real property, so the 1031 road ends there. Converting units to REIT shares or redeeming them for cash is generally taxable, and the client's old low basis carries into the units. Redemptions can be limited, income can change, and in many offerings the sponsor holds the option and decides whether the conversion happens. **Against a structure:** a structure gives set payments and taxes the gain as they arrive, but it has no step-up, and payments left at death remain taxable income to the heirs (IRC §691). For an older client who doesn't need the money and wants to leave it to family, the 721 route can come out ahead, and I'd say so. **What it means for you:** the money sits with the sponsor, so there may be little for you to manage, and whether you can offer it at all depends on your firm's approved product list. **My role:** these are securities, sold only by securities-licensed representatives. I don't sell securities and earn nothing on this route, while I may earn a commission on a structure, so weigh my view with that in mind. Read the offering memorandum, and have the CPA check both.

A 1031 ALONE IGNORES THE ESTATE PROBLEM

The step-up at death erases the client's income tax on the gain. It does not touch estate tax, which is 40% above $15,000,000 per person ($30,000,000 for a married couple). If the client's estate is near or over the line, see Chapter 20.

THE HIDDEN COST OF THE 1031 DEFAULT: NEW DEBT AT TODAY'S RATES

To defer all the gain, the replacement must carry at least as much debt as was paid off at closing, or the client adds cash; debt not replaced is boot (§1031(d); Reg. §1.1031(d)-2, Ex. 2). The old loan rarely travels: commercial loans carry due-on-sale clauses, enforceable notwithstanding state law (12 U.S.C. §1701j-3(b)), so the replacement needs a new loan at today's rates, with new fees, an appraisal and an approval. The exceptions are narrow: assuming the replacement's existing loan, seller financing on the replacement, or a rare lender that substitutes collateral. The payoff can trigger a prepayment charge (a step-down such as 5-4-3-2-1, yield maintenance or defeasance), worst on a young loan. And when the new loan costs more than the replacement's cap rate, each borrowed dollar lowers the client's income: negative leverage. **The honest comparison:** a structure doesn't avoid the payoff or its prepayment charge, and the loan paid off at closing is a year-one payment, taxed in year one (Temp. Reg. §15a.453-1(b)(3)(i)). What it avoids is the forced new debt: no replacement loan, no new rate, no negative leverage, no landlord job. Ask for the payoff letter and the prepayment terms before you run the side-by-side.

3. The farm family

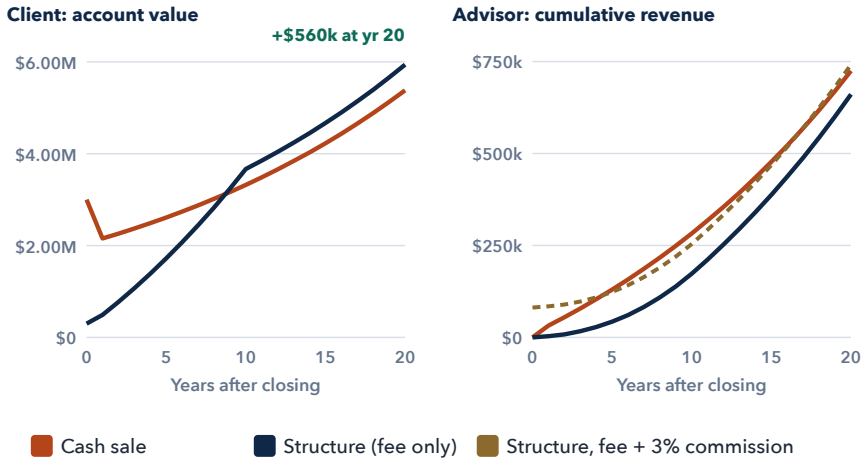
EXAMPLE

Walt and June, 71, California. They're selling farmland held for generations for $3,000,000, with a $150,000 basis. Other income is $58,350, and they receive $50,000 a year of Social Security. They keep $300,000 in cash at closing and structure $2,700,000 over 10 years at 5.25%.

THE FARM FAMILY	CASH SALE	STRUCTURE
Tax on the gain	$995,773	$664,455
Tax saved	base	$331,318
Account, year 10	$3,321,987	$3,667,994
Account, year 20	$5,380,326	$5,940,722
Client ahead (behind), year 20, at 4% / 6% / 8% gross	base	$796,228 / $560,396 / $48,278
Advisor: fees through year 20, fee only	$724,426	$660,656
Advisor: fees + 3% commission through year 20	$724,426	$741,656

WORKED EXAMPLE

The farm family



CA, age 71, $3,000,000 sale, 10-year structure at 5.25%, $300,000 cash at closing. 6% gross, 1% fee, no tax on portfolio growth either side. Commission is illustrative, needs a license and appointment, and is paid by the insurer, not the client.

For the client. A gain this large, on a basis this small, is where spreading works hardest: $331,318 less tax and $560,396 ahead at year 20, with a break-even gross return of about 8.1%. Already on Medicare, they pay about $113,232 more in surcharges over the schedule, and they're still far ahead.

For your practice. The account passes the cash sale's in year 9. Cumulative fees trail by $63,770 at year 20 and catch up in year 29. With a 3% commission ($81,000), the advisor dips behind from year 5 and is ahead again from year 17.

Planning notes. Farm property is exempt from the Section 453A interest charge on large notes, which matters above $5,000,000. That exemption covers property used in the trade or business of farming (IRC §453A(b)(3)(B)); land the family cash-rented to a tenant may not qualify, so have the CPA confirm. Whether the 3.8% tax applies depends on whether the family farmed the land or rented it out; the model applies it. Ask about the next generation early: a sale to a child brings in the related-party rules.

4. The doctor with passive losses

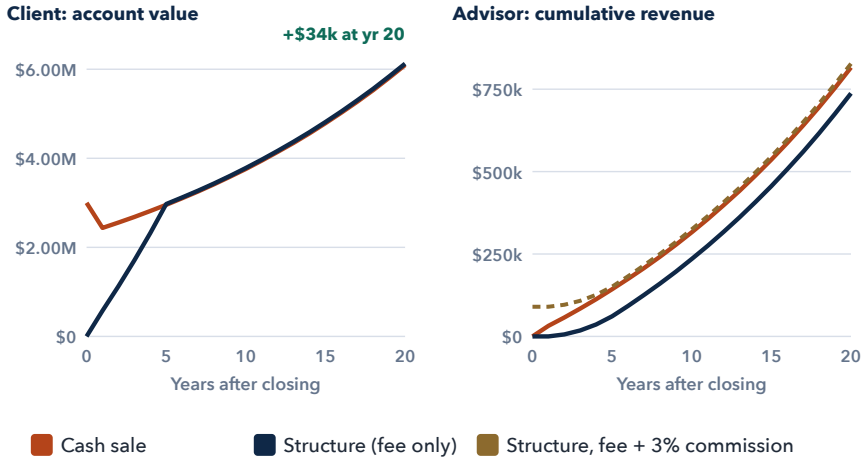
EXAMPLE

Priya and Raj, 57, California. Priya has cut back to part time; household income is $250,000. They own an apartment building bought as an investment: sale price $3,000,000, adjusted basis $800,000, $400,000 of depreciation taken, and $250,000 of suspended passive losses. A 5-year structure at 4.75%.

THE DOCTOR WITH PASSIVE LOSSES	CASH SALE	STRUCTURE
Tax on the gain	$710,950	$572,263
Tax saved	base	$138,687
Account, year 10	$3,761,574	$3,782,606
Account, year 20	$6,092,285	$6,126,348
Client ahead (behind), year 20, at 4% / 6% / 8% gross	base	$283,701 / $34,063 / ($460,860)
Advisor: fees through year 20, fee only	$816,079	$737,588
Advisor: fees + 3% commission through year 20	$816,079	$827,588

WORKED EXAMPLE

The doctor with passive losses



CA, age 57, $3,000,000 sale, 5-year structure at 4.75%. 6% gross, 1% fee, no tax on portfolio growth either side. Commission is illustrative, needs a license and appointment, and is paid by the insurer, not the client.

For the client. The building's own gain absorbs its suspended losses first, the way Form 8582 computes it: the first year's slice of gain is larger than the $250,000, so all of it is used in year 1, in the structure and in the cash sale alike (IRC §469(g)(3) spreads only a loss left over after that). The losses are ordinary deductions and the gain keeps its character (Temp. Reg. §1.469-1T(d)(1)), so in the federal capital-gain computation they come off income taxed at ordinary rates while the gain keeps its capital-gain rates; California taxes both at ordinary rates. The structure saves $138,687 and leaves the couple $34,063 ahead at year 20 at 6%, with a break-even of about 6.2%. That's a thin margin: at 7% the cash sale wins. The calculator has no input for suspended losses; without them it shows a $153,442 saving and $69,736 ahead.

The flip. Run the same building for the same couple while Priya still works full time, with $650,000 of other income. The saving falls to $59,053, and the structure leaves them $242,600 **behind** at year 20. At the top rate, the note interest keeps too little after tax. For this client the planning answer may be timing: sell after the income drops, not before.

For your practice. With a 3% commission ($90,000), the advisor is ahead of the cash sale in every year, checked year by year. Fee only, the account passes the cash sale's in year 5, but fees trail by $78,491 through year 20 and don't catch up within 60 years.

5. The couple in a no-income-tax state

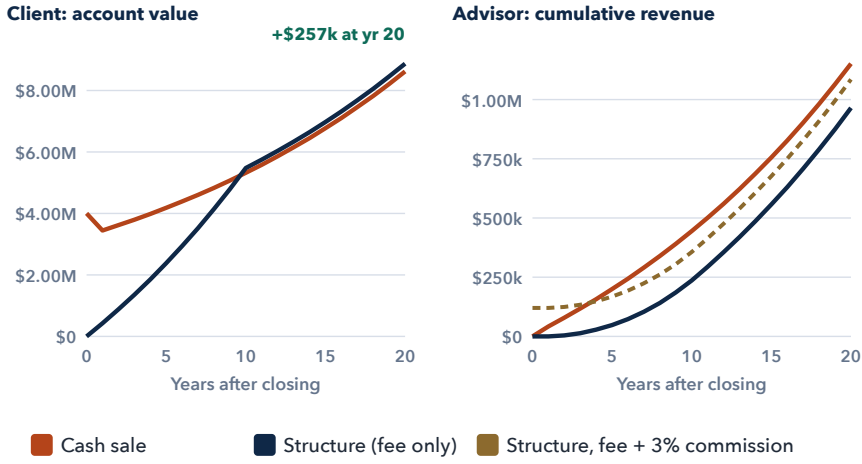
EXAMPLE

Tom and Lisa, 63, Texas. They're selling a commercial building for $4,000,000 with an $800,000 basis. Other income is $120,000. A 10-year structure at 5.25%.

THE COUPLE IN A NO-INCOME-TAX STATE	CASH SALE	STRUCTURE
Tax on the gain	$749,860	$535,550
Tax saved	base	$214,310
Account, year 10	$5,321,132	$5,479,504
Account, year 20	$8,618,162	$8,874,663
Client ahead (behind), year 20, at 4% / 6% / 8% gross	base	$834,540 / $256,501 / ($844,291)
Advisor: fees through year 20, fee only	$1,151,843	$964,842
Advisor: fees + 3% commission through year 20	$1,151,843	$1,084,842

WORKED EXAMPLE

The couple in a no-income-tax state



TX, age 63, $4,000,000 sale, 10-year structure at 5.25%. 6% gross, 1% fee, no tax on portfolio growth either side. Commission is illustrative, needs a license and appointment, and is paid by the insurer, not the client.

For the client. With no state tax there's less to save, and only a longer schedule changes the federal brackets enough to matter: $214,310 less tax and $256,501 ahead at year 20, with a break-even of about 6.6%. A 3-year structure would leave them behind. The 10-year schedule also runs through their Medicare years and adds about $113,232 of surcharges.

For your practice. Be honest with yourself here. The account passes the cash sale's only in year 10. Fee only, cumulative fees trail by $187,001 through year 20 and catch up only in year 51; even with a 3% commission ($120,000), the advisor is $67,001 behind at year 20. The client's result is the reason to raise it. It's also the client who will remember that you did.

6. When cash wins

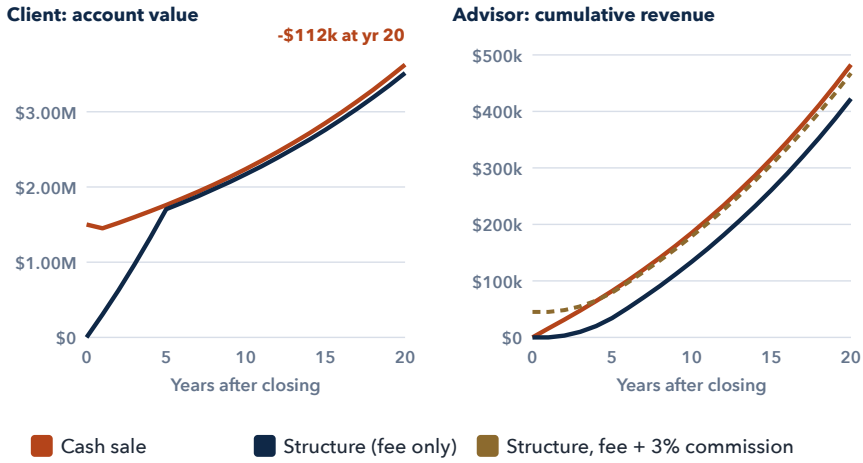
EXAMPLE

Alex and Sam, 49, Nevada. They're selling a rental for $1,500,000 with a $900,000 basis. Other income is $250,000, and they have decades ahead. A 5-year structure at 4.75%.

WHEN CASH WINS	CASH SALE	STRUCTURE
Tax on the gain	$123,005	$112,800
Tax saved	base	$10,205
Account, year 10	$2,239,574	$2,170,242
Account, year 20	$3,627,237	$3,514,947
Client ahead (behind), year 20, at 4% / 6% / 8% gross	base	$65,685 / ($112,290) / ($441,291)
Advisor: fees through year 20, fee only	$482,846	$422,423
Advisor: fees + 3% commission through year 20	$482,846	$467,423

WORKED EXAMPLE

When cash wins



NV, age 49, $1,500,000 sale, 5-year structure at 4.75%. 6% gross, 1% fee, no tax on portfolio growth either side. Commission is illustrative, needs a license and appointment, and is paid by the insurer, not the client.

For the client. The $600,000 gain mostly stays in the 15% bracket whether it's taken at once or spread, and there's no state tax. The structure saves only $10,205, and the client gives up years of growth on the money not yet received: $112,290 behind at year 20 at 6%. Take the cash.

For your practice. Even with a 3% commission, the advisor ends up behind the cash sale too. A structure that's wrong for the client is wrong for the practice. Showing the client the analysis and saying "take the cash" is the win.

What the six have in common

- **The structure wins when the gain is large relative to the brackets,** state tax is high, ordinary income is moderate, and the return you'd plan on is moderate.
- **It loses when the gain already fits low brackets,** ordinary income stays high, or the plan assumes high returns for decades.
- **Medicare is the cost to watch** for anyone 63 or older during the schedule.
- **Once the rate is quoted, a commission doesn't change the client's numbers,** and a fee-only advisor who takes nothing from the specialist can raise every one of these cases with no commission conflict.

> **TAKEAWAY**
>
> Run the client first; the practice view follows.

DO THIS NOW

- [ ] Match each client on your list to the closest of the six and note what made that one work, or not.
- [ ] For a client like the doctor, get the Form 8582 carryforward worksheet before you run anything.
- [ ] For a client like the sixth, close the file with a one-line note: cash, and why.

PART II · THE RELATIONSHIP

CHAPTER

09

What It Does for the Relationship

The sale closed on a Friday. *By Monday, three people had called Ellen's client with a place to put the money: an exchange intermediary with a replacement building, a private bank, and his golf partner's advisor. Ellen had planned the sale with him for a year, with his CPA and his attorney at the table. Hers was the only call he returned.*

The fee math in the next part is the part you can count. This chapter is the part you can't, and it often matters more. None of it is in the book's numbers: no chart or table here assumes a client stays longer, refers anyone or brings in a family member. What follows is reasoning, and where research exists, the source. Where a source is a survey, it measures what people said, not what they did.

The sale is when the money moves

A sale turns an illiquid asset into one wire, on one day, and nearly everyone involved has a suggestion for it: the broker's favorite exchange intermediary, a sponsor of a Delaware statutory trust, the bank that held the operating account, the buyer's banker. An advisor who hears about the sale at closing competes for that wire. An advisor who planned the sale already has the plan, and the client's trust that the plan was right.

Owners know it. In Cornerstone Business Services' 2025 National Study on Selling Your Business, a survey of 750 owners of companies with $5 million or more of revenue, only 4% said they were completely confident their current financial advisor was the right person for them both before and after the sale. The top reason owners gave for being open to leaving, as the study's au-

thor reported on the Exit Planning Institute's blog (August 2026): "My financial advisor never had a proactive conversation with me about my eventual business sale and financial goals to live my ideal post-sale lifestyle."

That's the first relationship value of planning the exit, and it doesn't depend on the fee math. The proceeds come into the plan on a schedule you designed with the client, instead of to whoever calls first. Planners who focus on business owners describe the same shift. In a 2025 Kitces.com podcast, one put it this way: "when a business gets to a certain size, the biggest impact we can have on those clients usually is not helping them with their portfolios and their investment assets." For a seller, that impact is the exit.

A real reason to work with the CPA and the attorney

A structured sale can't be done without the client's CPA, who has to agree with the reporting, and the client's attorney, who writes it into the purchase agreement. So it gives you something many advisors look for and few find: a substantive joint project with the other professionals on the client's team, on the client's biggest decision.

Those relationships matter for growth. Cerulli Associates' U.S. Advisor Metrics 2025 found centers of influence such as CPAs and attorneys to be advisors' second most common source of new clients (13.9%), after referrals from clients, friends and family (54.2%). The advice for building them is consistent. A CFP® professional writing on Kitces.com about earning CPA referrals put the first rule plainly: "Assure them you aren't going to compete with their services." The same article tells advisors to keep the CPA updated when "there's a possible event that could affect their taxes (ie, large capital gain/loss, Roth IRA conversion, etc.)." A business or building sale is the largest such event most clients will have. Bring the CPA the side-by-side before the purchase agreement is final, let the CPA check every number, and you've done what that advice describes, on the case that matters most to the client.

Planning clients can see

Most advisors now say they do tax planning; fewer do it on the decision that moves the most tax. A 2026 Cerulli Associates survey found that 40% of advisors offer income tax planning. A year-by-year plan for the client's exit, with brackets, the alternative minimum tax, the 3.8% tax, Medicare's look-back and the payment schedule laid out together, goes a step further than most.

It also fits the language you already use. Vanguard's Advisor's Alpha research put the value of advice at "about 3% in net returns," and said that value "is likely to be very irregular": it comes in large, occasional decisions, not every year. An exit is the most irregular of all. Michael Kitces has called the habit behind Roth conversions "tax bracket arbitrage": "creating wealth by reporting income when tax rates will be lower." A structured sale is the same arbitrage, across years, on a gain instead of an IRA. Show it the way you'd show any planning value: after tax, after fees, at a return you'd plan on (Chapter 7).

Retention and referrals

We can't give you a number for how long a client stays after a well-planned exit, or how many introductions it brings, and we won't invent one. Here is what the research does say, and the reasoning that connects it to a sale.

- **Advisors credit planning for retention.** In a 2026 Cerulli survey, advisors who provide comprehensive planning named stronger client relationships (83%) and increased client retention (73%) among its most significant benefits. That's what advisors report, not a measured retention rate, but it's the same direction this chapter argues.
- **Referrals follow a conversation about a problem.** A 2013 *Journal of Financial Planning* article, citing Julie Littlechild's referral research, reported that 57% of clients who referred did so "because a friend described a financial challenge," against 2% who did because the advisor asked. A seller's friends are often other owners, landlords and farm families, and many of them will face the same sale.
- **Clients who feel looked after recommend.** In a 2026 Cerulli study of wealth-management clients, 68% of those who mainly worked with an as-

signed representative said they were highly likely to recommend their firm.

- **The family is the hard part.** Cerulli reported in 2023 that "just one in five affluent investors use the same advisor as their parents." A sale is often the first time the children sit in on the family's money. If the client dies during the schedule, the payments continue to the heirs, and so does the plan that explains them (Chapter 7). Children who watched you plan the sale have a reason to be the exception.

The honest version of all this: a well-planned exit gives you reasons to be trusted, the CPA and the attorney as allies, and a story the client can tell. None of it is promised, and a structure that was wrong for the client would cost you all of it.

What it isn't

Relationship value is not a reason to recommend a structure. If the client's numbers say cash, saying so is the relationship value: the client sees their numbers come first. The advisors who earn the introductions are the ones whose clients can say, "She showed us both, and told us to take the cash."

Two ways to refer

How you're paid decides which path you're on. Both keep the client's numbers in charge.

	FEE-ONLY PATH	LIFE-LICENSED PATH
What you do	Spot the sale, run the side-by-side, bring in the CPA and attorney, introduce a licensed agent	All of that, and possibly place the structure, if appointed and your firm allows it
What you're paid	Your advisory fee (or a planning fee) on the proceeds as they arrive. Nothing from the specialist.	Your fee, plus a one-time commission or a disclosed share of the placing agent's commission
What it takes	Nothing beyond your normal disclosures. An unpaid introduction that stops short of soliciting the contract needs no insurance license.	An active life insurance license, any required appointment, your firm's approval and written disclosure to the client, in dollars
Your label	Stays fee-only: the CFP Board counts referral compensation as Sales-Related Compensation, and you take none	No longer fee-only under CFP Board rules, even if the share goes to your firm or a related party
The conflict	Your fee points away from a structure for the first years (Chapter 10)	A commission points toward one; disclose it in dollars before the client decides

My own rules are simple. I pay nothing to unlicensed referrers. I share compensation only with advisors who hold an active life insurance license (and any required appointment), with their firm's approval, disclosed in writing to the client in dollars. A fee-only CFP® professional can refer and take nothing, and stays fee-only. Chapter 15 has the rules and sources. Check with your compliance department before you rely on either path.

TAKEAWAY

Plan the exit and you're in the room when the money moves.

DO THIS NOW

- [ ] Ask each client who has listed, or had an offer fall through, what happened and why it didn't close.
- [ ] Get the names of the deal team: broker, intermediary, attorney, CPA.
- [ ] Introduce yourself to the client's CPA before the deal, not at the wire.

PART III · YOUR REVENUE

CHAPTER

10

Your Revenue, Two Tracks

Dana is a fee-only CFP® professional, and she ran the numbers on herself first. *A structure would cut her fee for years against a cash sale that would have landed in her account. She raised it anyway. The client came out ahead, and so, eventually, did the account.*

The client's result comes first, and the relationship (Chapter 9) doesn't fit in a table. Your revenue follows from both, and you should know exactly how. This chapter runs the same $5,000,000 California sale through two kinds of practice: an advisor paid only an advisory fee, and an advisor who is also a licensed, appointed life insurance agent and may be paid a commission when a structure is placed. Same market return (6% gross), same schedules, same client.

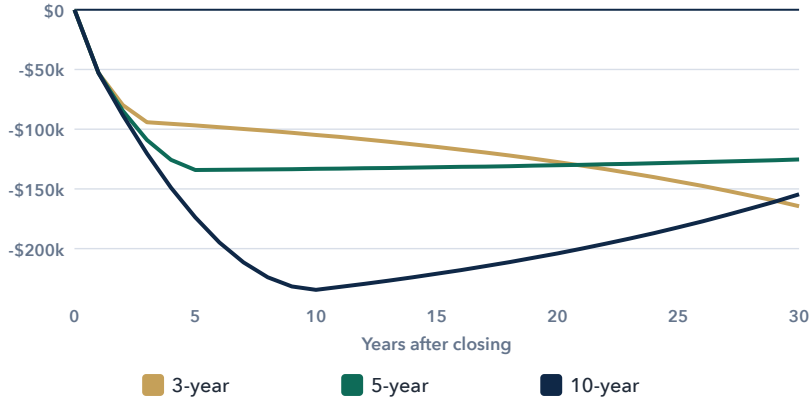
Track 1: advisory fee only

A fee-only advisor is paid on what's in the account. A structure fills the account over time, so the fee starts lower.

YOUR ANNUAL FEE AT 1%	CASH SALE	3-YEAR	5-YEAR	10-YEAR
Year 1	$53,000	$0	$0	$0
Year 3	$42,324	$27,892	$17,931	$10,276
Year 6	$48,911	$47,483	$49,098	$27,960
Year 11	$62,246	$60,429	$62,484	$64,680
Year 20	$96,068	$93,265	$96,436	$99,825

THE NUMBERS

Your cumulative fee vs. the cash sale (California)



Structure's cumulative 1% fee minus the cash sale's, 6% gross return. Below zero, the structure has produced less fee to date.

CUMULATIVE FEE AT 1%	CASH SALE	3-YEAR	5-YEAR	10-YEAR
Through year 5	$226,678	$129,792	$92,453	$52,866
Through year 10	$496,617	$391,854	$363,426	$262,135
Through year 20	$1,277,350	$1,149,800	$1,147,148	$1,073,399
Through year 30	$2,541,834	$2,377,379	$2,416,472	$2,387,331
Present value, 30 years at 5%	$1,102,899	$987,069	$985,730	$935,355

Be clear-eyed about this. **Against a cash sale that would have landed in your account, the fee-only advisor earns less for a long time.** The 5-year structure's annual fee passes the cash sale's in year 6, and the 10-year structure's in year 11; after that, every year pays more. But the early shortfall is large: $133,191 through year 10 on the 5-year structure and $234,482 on the 10-year. (The cash sale's first-year fee is the largest of all, $53,000, because the tax money sits in the account until it's paid at year end.) At 6% and 1%, cumulative fees on the 10-year structure don't catch up until about year 47; on the 5-year and 3-year structures they don't catch up within 60 years.

The fee rate doesn't change the picture much. Through year 10, the 10-year structure produces $179,245 less fee at 0.75% and $287,559 less at 1.25%.

Where the fee-only advisor does make more money:

- **When the proceeds weren't coming to you anyway.** If the client's default is a 1031 exchange into another building or a Delaware statutory trust, or a sale with the cash parked at the bank, the comparison isn't the cash-sale column. It's zero. Against zero, a 10-year structure produces $1,073,399 of fees through year 20 on money you would never have managed.
- **After the last payment.** From year 6 (5-year) or year 11 (10-year), your annual fee is higher every year for as long as the client stays, because the account is larger.
- **The next generation.** A larger account passes to the heirs. So does the relationship, if you earned it.

Track 2: advisory fee plus a commission

An advisor who holds a life license may be paid in one of two ways: appointed with the program and paid a one-time commission by the insurer when the structure is placed, or paid a disclosed share of the placing agent's commission. Either way it takes a license, any required appointment, your firm's approval and written disclosure to the client, in dollars. The commission is **built into the payout rate**, not charged to the client separately; it varies by program, term and the brokerage split, and a program that pays more commission may pay the client a lower rate. We show a range: **2%, 3% and 4% of the amount structured**, paid once at placement. (For reference, the author's own disclosed figure is about 4% total, paid to the brokerage, with his share about 2.4%.) The client numbers in Chapter 4 already use the payout rates the client would receive, so nothing about the client changes.

REVENUE VS. CASH SALE, CALIFORNIA, 1% FEE	COMMISSION	YEAR 5	YEAR 10	YEAR 20	PRESENT VALUE (30 YEARS, 5%)
3-year, 2%	$100,000	$3,114	($4,763)	($27,550)	($15,829)
3-year, 3%	$150,000	$53,114	$45,237	$22,450	$34,171
3-year, 4%	$200,000	$103,114	$95,237	$72,450	$84,171
5-year, 2%	$100,000	($34,225)	($33,191)	($30,202)	($17,169)
5-year, 3%	$150,000	$15,775	$16,809	$19,798	$32,831
5-year, 4%	$200,000	$65,775	$66,809	$69,798	$82,831
10-year, 2%	$100,000	($73,812)	($134,482)	($103,951)	($67,543)
10-year, 3%	$150,000	($23,812)	($84,482)	($53,951)	($17,543)
10-year, 4%	$200,000	$26,188	($34,482)	($3,951)	$32,457

Cumulative commission plus fees, minus what the cash sale's fees would have been; (parentheses) = behind.

At 3% or more, the 3-year and 5-year structures put the advisor ahead of the cash sale in every year shown; at 3% the 5-year stays ahead through year 30, and the 3-year slips behind from year 27. At 2%, the 5-year trails from year 3. The 10-year structure trails from year 5 at 3% and is still behind at year 30; at 4% it trails from year 7 and is ahead again from year 22, because the account takes a decade to fill.

Your revenue, three ways

YOUR REVENUE

Your revenue, three ways (5-year structure, California)



Cumulative revenue minus what the cash sale's 1% fee would have paid you (the $0 line). $5,000,000 example, 6% gross return; commission paid once at placement on the $5,000,000 structured. Assumptions, not a forecast; commissions vary by program and require a license and appointment.

5-YEAR STRUCTURE, CALIFORNIA, 1% FEE	THROUGH YEAR 5	THROUGH YEAR 10	THROUGH YEAR 20	THROUGH YEAR 30
Cash sale, fee only	$226,678	$496,617	$1,277,350	$2,541,834
Structure, fee only	$92,453	$363,426	$1,147,148	$2,416,472
Structure, fee plus 3% commission	$242,453	$513,426	$1,297,148	$2,566,472

If the client lives on it: your fees

Spending doesn't rescue the fee-only math at a steady return. With $150,000 a year spent (Chapter 4), both accounts are smaller, so both fee streams are, and the gap barely moves: the 5-year structure's cumulative fees trail the cash sale's by $115,377 through year 20 (against $130,202 untouched), the 10-year's by $178,842. With a 3% commission, the 5-year structure stays ahead of the cash sale every year ($34,623 ahead at year 20); the 10-year trails from year 5.

What spending changes is the risk. If years 2 and 3 fall 20%, the cash account shrinks while the client keeps drawing on it, and the structured account, fed by payments, doesn't: fee only, the 5-year structure ends $209,601 ahead of the cash sale's fees through year 20. If those years rise 20%, it ends $336,015 behind. Same exposure, seen from your side of the table.

§ FOR YOUR COMPLIANCE TEAM

A commission is a conflict of interest, and it points toward recommending a structure. It has to be disclosed in writing before the client decides, and the recommendation has to stand on the client's numbers alone: if the cash sale leaves the client better off, that is the advice. Only a licensed agent (appointed where required) can be paid an insurance commission; an unlicensed advisor should not share in one. Many firms require the commission to be disclosed on Form ADV, approved as an outside business activity, or offset against advisory fees. Chapter 15 has the rules and sources. Check with your compliance department before you rely on any of this.

TAKEAWAY

Fee only, a structure costs you early; it's still the right call when the client comes out ahead.

DO THIS NOW

- [ ] Decide your track, fee only or fee plus a disclosed commission, and write it down.
- [ ] For one client, put your revenue both ways next to the client's column.
- [ ] If you're fee-only, confirm with your compliance department that you'll take nothing.

CHAPTER

11

Short Schedules and the Win-Win Zone

Frank and Joan's sale was smaller, *a $2,000,000 rental with a $1,500,000 gain. They assumed a structure was for the big deals. For them, three years did most of the work, and the money was under management by the end of year 3.*

Shrink the gain and the schedule can shrink with it. The 3-year structure failed in Chapter 3 because $1,333,000 of gain a year is still deep in the top brackets. On a smaller gain, three years is enough to change the bracket.

EXAMPLE

Frank and Joan, 62, California, $150,000 of other income. This time the sale is $2,000,000 with a $500,000 basis: a $1,500,000 gain. Cash at closing, or 3 or 5 years at the same illustrative note rates (4.5% and 4.75%). Same 6% gross return and 1% fee.

CALIFORNIA, $1,500,000 GAIN	CASH	3-YEAR	5-YEAR
Tax on the gain	$514,669	$411,126	$401,707
Saved vs. cash	(starting point)	$103,543	$112,962
Assets passed the cash sale in	(starting point)	Year 3	Year 5
Client ahead at year 10	(starting point)	$55,387	$66,350
Client ahead at year 20	(starting point)	$89,705	$107,461

THE NUMBERS

A $1,500,000 gain: three years fills the account fast



California couple, $2,000,000 sale, 6% gross return, 1% fee, no tax on portfolio growth. Engine run plus the stated portfolio model.

Three years captures 92% of the 5-year tax saving and puts the money under management two years sooner. The 3-year account passes the cash sale's account at the end of year 3 ($1,784,029 against $1,744,509). Cumulative fees catch up in year 38. The break-even gross return is about 7.1%.

This is the short structure's sweet spot: **a gain big enough to push a year into the top brackets, but small enough that three years pulls most of it back down.** For a married couple, that's often a gain in the low millions. Above that, the schedule usually has to be longer, or split: some cash now, a short structure, and a longer one, each piece sized to clear the program minimum.

For the advisor. Fee only, the 3-year structure's annual fee passes the cash sale's in year 4, and cumulative fees catch up in year 38; over 30 years the present value of your fees is $25,419 lower than on the cash sale. With a commission of 2% to 4% of the $2,000,000 structured ($40,000 to $80,000), you are ahead of the cash sale in every year: $6,002 to $46,002 ahead through year 10.

The short-schedule win-win

Advisors ask a fair question: is there a schedule that's good for the client **and** gets the money under management fast? We ran the grid to find out, on the advisor calculator's own model: schedules of 2 to 10 years, 0% to 50% of the price kept as cash at closing, sales of $1,500,000, $3,000,000 and $5,000,000 (basis 20% of the price), California and Texas, a 1% fee, and 4%, 6% and 8% gross returns, with and without a 3% commission. The couple is 62, with $150,000 of other income.

Here is the middle case: a $3,000,000 California sale, the whole price structured, 6% gross.

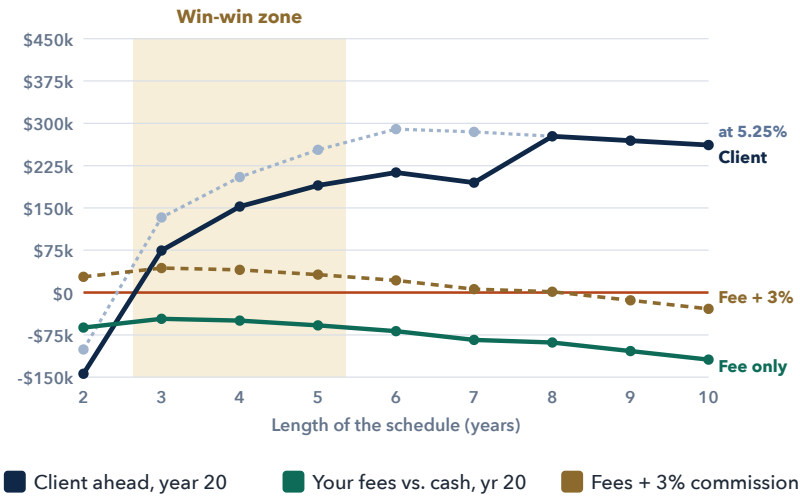
$3M SALE, CALIFORNIA, 6% GROSS	TAX SAVED	SHARE OF 10-YEAR SAVING	CLIENT AHEAD, YEAR 10	CLIENT AHEAD, YEAR 20
2-year	$37,866	18%	($88,881)	($143,952)
3-year	$134,654	63%	$45,883	$74,313
4-year	$169,060	79%	$94,103	$152,410
5-year	$192,189	90%	$117,167	$189,764
6-year	$197,921	93%	$131,378	$212,781
7-year	$201,879	94%	$120,348	$194,917
8-year	$205,838	96%	$171,093	$277,104
9-year	$209,796	98%	$166,293	$269,330
10-year	$213,755	100%	$161,401	$261,406

(Parentheses) = behind the cash sale. In the next table, 100 means the account has caught up with the cash sale's.

$3M SALE, CALIFORNIA, 1% FEE	ACCOUNT AS % OF CASH SALE, YEARS 1/2/3/5	YOUR FEES VS. CASH, THROUGH YEAR 10	THROUGH YEAR 20	FEES + 3% COMMISSION, THROUGH YEAR 20
2-year	50/97/97/97	($50,177)	($61,994)	$28,006
3-year	35/69/101/101	($52,757)	($46,656)	$43,344
4-year	27/53/79/103	($62,159)	($49,648)	$40,352
5-year	22/44/64/103	($73,668)	($58,090)	$31,910
6-year	19/37/55/88	($86,045)	($68,577)	$21,423
7-year	17/33/48/77	($100,150)	($84,150)	$5,850
8-year	15/30/43/69	($111,370)	($88,622)	$1,378
9-year	14/27/39/63	($125,725)	($103,616)	($13,616)
10-year	13/25/36/58	($140,274)	($118,815)	($28,815)

WIN-WIN

The short-schedule win-win ($3,000,000 sale, California)



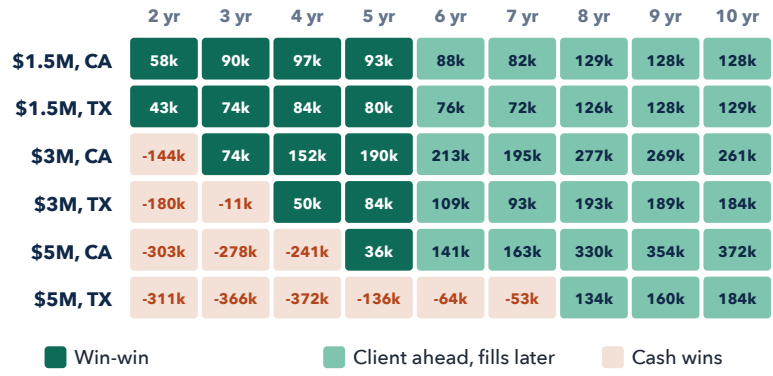
Above $0: ahead of the cash sale. Married couple, 62, $150,000 other income, $600,000 basis, whole price structured. 6% gross, 1% fee, no tax on portfolio growth either side. Shaded: the client is ahead at year 20 and the account has caught up with the cash sale's by year 5. Note rates 4.5% (2 to 3 years), 4.75% (4 to 7), 5.25% (8 to 10), which is why the client line steps up at 8 years; the dotted line holds every term at 5.25%. Advisor calculator model; commission illustrative, licensed and appointed advisors only.

Read the two tables together.

- **Three to five years does most of the tax work.** The 3-year schedule captures 63% of the 10-year tax saving, the 4-year 79% and the 5-year 90%. Two years is too short for this gain: it saves $37,866 and leaves the client $143,952 behind at year 20.
- **The account fills fast.** The 3-year account passes the cash sale's at the end of year 3; the 5-year account at the end of year 5. The 10-year account holds 58% of the cash sale's at year 5.
- **Your fee gap shrinks.** Fee only, you still trail the cash sale's fees, but by $58,090 through year 20 on the 5-year schedule against $118,815 on the 10-year. With a 3% commission, every schedule up to 5 years keeps you ahead of the cash sale in every year through year 20, checked year by year; the 6- to 8-year schedules end ahead but dip behind in between, and the 9- and 10-year schedules end behind.
- **Longer isn't automatically better for the client.** The table's 8- to 10-year rows look better only because our illustrative rate steps up to 5.25% at 8 years. Hold the rate at 5.25% for every term and the client's lead at year 20 peaks at 6 years ($289,631) and fades after it ($261,406 at 10 years): past a point, the extra tax saved is smaller than the growth given up waiting. Longer schedules also carry more Medicare surcharges ($88,973 for 8 years against $50,842 for 5), and the shorter ones lose less if markets beat 6% (at 8% gross, $217,648 behind on 4 years against $469,031 on 10). Real quotes decide it, so get them for more than one term.

WIN-WIN

Where the win-win zone falls



Win-win: the client is ahead at year 20 and the account has caught up with the cash sale's by year 5. Each cell: client ahead (behind) at year 20 versus the cash sale, in thousands, at 6% gross and a 1% fee; basis 20% of price, couple 62, $150,000 other income, no cash at closing. At 4% every cell is ahead; at 8% none is. Advisor calculator model.

Across the grid, the pattern holds. Call the **win-win zone** the schedules where the client is ahead at year 20 and the account has caught up with the cash sale's by the end of year 5. At 6% gross, with no cash at closing, it runs from 2 to 5 years for a $1,500,000 sale, 3 to 5 years for a $3,000,000 California sale and only the 5-year schedule for a $5,000,000 California sale. In Texas the $3,000,000 sale narrows to 4 or 5 years, and the $5,000,000 sale needs 8 years or more to come out ahead at all, so it has no win-win term. Keeping a larger share in cash at closing widens the zone: with half the price in cash, the $5,000,000 California sale wins at 3 to 5 years. At 4% gross every schedule in the grid leaves the client ahead. At 8%, none does unless half the price is kept in cash, and then only for the $1,500,000 sale.

The rule of thumb: for a gain of about $1,000,000 to $2,500,000 in a high-tax state, a 3- to 5-year schedule usually captures most of the tax saving and gets the whole account under management within a few years. Larger gains need 5 years or more, and a no-income-tax state needs longer still (4 to 5 years at a $2,400,000 gain). The margins are modest: at 6%, the 3- to 10-year schedules for the $3,000,000 California sale leave the client about 1% to 5%

ahead of the cash sale's account at year 20, and the break-even return is about 6.6% to 7.1%. Then quote a longer schedule too, show the client both, and let the client choose; at the same rate, the longer one often adds little.

The caveats, honestly

- **Shorter means less spreading.** Each year's slice of gain is bigger, so more of it stays in the top layers. Too short, and the client loses, as the 2-year schedule does here.
- **Medicare.** Every schedule year from age 63 on can carry surcharges. Shorter schedules carry fewer.
- **Program minimums.** Each structure has to clear the program's minimum, often $100,000 to $500,000.
- **The rate.** The note must carry at least the applicable federal rate for its term, and short-term rates are lower: our illustrative rates are 4.5% for 2 to 3 years, 4.75% for 4 to 7 and 5.25% for 8 to 10. A real quote moves every number here (Chapter 5).
- **One payment is the shortest schedule.** A single payment early the next year is a valid installment sale, and it moves the whole gain into one later year. That helps when next year's income will be lower, but it spreads nothing. The calculator starts at 2 years.
- **It's a model.** Same return on both sides, no tax on portfolio growth (which favors the cash sale), 2026 law held flat. Run your own client.

TAKEAWAY

Find the shortest schedule that does most of the tax work, then show the client what a longer one adds.

DO THIS NOW

- [ ] For each client on your list, find the shortest schedule that does most of the tax work, and run it next to a 10-year.
- [ ] Note the year the account catches the cash sale on each.
- [ ] Show the client the short schedule first, then what a longer one adds.

CHAPTER

12

The Carve-Out: Cash at Closing

"***Keep some of it at closing,*** **" *Ann said,* "*in case something comes up.*" *She meant a cushion. It turned out to be one of the better changes to the plan, for her and for the account.*

Not every dollar has to be structured. A carve-out is the part of the price taken in cash at closing; the rest is structured. The carve-out goes into the account on day one, and its gain is taxed in the sale year, along with the first payment's. The question is how big to make it. We ran the main California example ($5,000,000 sale, $4,000,000 gain, couple 62, 6% gross, 1% fee) with 0% to 60% of the price kept at closing, on the advisor calculator's model.

10-YEAR STRUCTURE, CA, KEPT AT CLOSING	DAY ONE UNDER MANAGEMENT	TAX SAVING KEPT	CLIENT AHEAD, YEAR 20	YOUR FEES VS. CASH, THROUGH YEAR 20	FEES + 3% COMMISSION VS. CASH
0%	$0	100%	$371,922	($203,951)	($53,951)
5%	$250,000	100%	$395,775	($188,886)	($46,386)
10%	$500,000	97%	$401,310	($176,038)	($41,038)
20%	$1,000,000	86%	$314,873	($162,138)	($42,138)
30%	$1,500,000	75%	$290,560	($140,169)	($35,169)
40%	$2,000,000	66%	$262,510	($118,673)	($28,673)
50%	$2,500,000	56%	$233,781	($97,250)	($22,250)

5-YEAR STRUCTURE, CA, KEPT AT CLOSING	DAY ONE UNDER MANAGEMENT	TAX SAVING KEPT	CLIENT AHEAD, YEAR 20	YOUR FEES VS. CASH, THROUGH YEAR 20	FEES + 3% COMMISSION VS. CASH
0%	$0	100%	$36,406	($130,202)	$19,798
5%	$250,000	100%	$41,776	($123,243)	$19,257
10%	$500,000	93%	$63,075	($113,984)	$21,016
20%	$1,000,000	87%	$100,140	($96,078)	$23,922
30%	$1,500,000	82%	$128,194	($79,275)	$25,725
40%	$2,000,000	76%	$150,356	($63,163)	$26,837
50%	$2,500,000	65%	$158,522	($48,694)	$26,306

"Tax saving kept" is the share of the no-carve-out structure's saving. (Parentheses) = behind the cash sale.

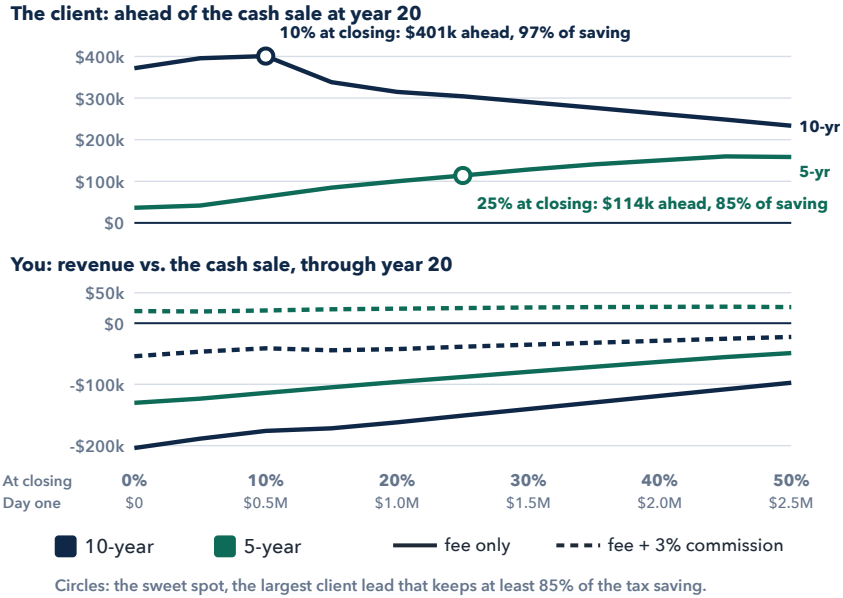
What the numbers say

- **A small carve-out costs almost nothing in tax.** On the 10-year schedule, the first 5% to 10% of the price fits in bracket room the sale year would otherwise leave empty: a 10% carve-out keeps 97% of the tax saving.
- **It can leave the client further ahead, at 6%.** Money taken at closing earns the market return from day one instead of the note rate, so part of this lead is that spread, not tax: at a lower return it shrinks. On the 10-year schedule the client's lead at year 20 rises from $371,922 with no carve-out to $401,310 at 10%, then falls as each extra dollar lands in the top layers of tax. On the 5-year schedule, where the structure was only narrowly ahead, it rises from $36,406 to a peak of $159,859 at 45%, while the tax saving kept falls to 71%. The break-even return rises with it, from about 6.1% to 7.0%: a carve-out makes the 5-year answer less fragile.
- **It puts money under management on day one** and narrows your fee gap. Fee only, a 10% carve-out on the 10-year schedule moves the gap through year 20 from $203,951 to $176,038; a 25% carve-out on the 5-year schedule moves it from $130,202 to $87,677.

- **The commission shrinks with it,** because it's paid only on the amount structured. With 3%, every 5-year row keeps you ahead of the cash sale in every year; every 10-year row up to 60% still trails from year 5.

CARVE-OUTS

Carve-outs: how much cash at closing ($5M California sale)



Circles: the sweet spot, the largest client lead that keeps at least 85% of the tax saving.

Top: client ahead (behind) of the cash sale at year 20. Bottom: your cumulative fees (solid), and fees plus an illustrative 3% commission on the amount structured (dashed), minus the cash sale's fees, through year 20. 6% gross, 1% fee, couple 62, $150,000 other income. Advisor calculator model. Assumptions, not a forecast.

The sweet spot

Call the sweet spot the carve-out with the largest client lead among those that keep at least 85% of the tax saving. For this couple it's **10% on the 10-year schedule** ($500,000 at closing, 97% of the saving kept, $401,310 ahead at year 20) and **25% on the 5-year schedule** ($1,250,000 at closing, 85% kept, $114,167 ahead). Other gains, states and incomes move it; run your own client.

The plain-English rule: keep enough at closing for one to two years of spending, plus any purchase you already know about, plus the year-one tax the carve-out itself creates. Structure the rest. For Ray and Ann, two years of spending is $300,000; with the tax on the carve-out and a cushion, 10% of the price ($500,000) is about right, and on the 10-year schedule it's also the sweet spot. The rule is about liquidity and the sweet spot is about tax and return; here they happen to agree. Money for a known purchase belongs in cash or short bonds, not in a 6% portfolio; the model invests every carved-out dollar, which flatters the carve-out a little.

The reserve, when the client lives on it

With $150,000 a year spent (Chapter 4), the payments cover the spending, so the carve-out is a reserve the client doesn't have to sell in a bad year: for an emergency, an opportunity or a gift. It's still money in the market, so it gives back some of the structure's cushion in the down-market test: on the 10-year schedule, the client's after-tax lead in that test is $3,125,781 with no carve-out and $2,867,610 with 10%. At a steady 6% the lead barely moves ($693,678 against $686,784).

The caveats

- **The carve-out is taxed in year one.** Its gain lands in the sale year, on top of the first payment's. That's why the saving falls as the carve-out grows: 86% kept at 20% and 56% at 50% on the 10-year schedule.
- **Bigger carve-out, less spreading.** Past the sweet spot each extra dollar at closing is taxed in the top layers again.
- **The year-one tax bill is usually paid from the carve-out.** The first structured payment may not arrive until the end of the first year. Size the carve-out to cover it.
- **Program minimums.** The structured piece still has to clear the program's minimum, often $100,000 to $500,000.
- **Medicare.** At 62, the sale year falls outside the look-back, so a carve-out moves income into a year Medicare never sees (on the 5-year schedule, surcharges fall from $55,488 to $50,842 at 40%). For a client 63 or older at the sale, it can run the other way.

TAKEAWAY

Keep one to two years of spending and any known purchase at closing; structure the rest.

DO THIS NOW

- [ ] Write down each client's cash need at closing: one to two years of spending, known purchases, the year-one tax.
- [ ] Rerun the side-by-side with that amount kept as cash.
- [ ] Put the carve-out on the plan, in dollars.

CHAPTER

13

Both Ways, Side by Side

"***So what's in it for each of us?***" *It's a fair question for a client to ask, and a fair one to ask yourself. Every case in this book has three ledgers: the client's, the fee-only advisor's and the life-licensed advisor's. The next page puts them side by side.*

The client's column decides. The other two follow from it, honestly. All figures: 6% gross, 1% fee, year 20, against a cash sale that would have landed in your account; commission an illustrative 3% of the amount structured, paid once by the insurer and built into the rate.

How to read it

- **The client comes out ahead in four of the five rows.** In the fifth, the cash sale is better for everyone, including you. That's the row that earns trust.
- **Fee only, you're usually behind for twenty years** against a cash sale that would have come to you, and ahead in two situations: when the money wasn't coming to you anyway, and when markets fall early while the client lives on the account.
- **Life-licensed, short schedules keep you ahead; long ones don't.** A commission doesn't change the client's numbers once the rate is quoted, and it's a conflict you disclose in dollars.
- **What no table shows** is in Chapter 9: being in the room when the money moves, the CPA and attorney you now work with, and the family and friends who heard how the sale went.

Every ledger on one page

CASE	WHAT YOUR CLIENT GETS	WHAT YOU GET, FEE-ONLY	WHAT YOU GET, LIFE-LICENSED
Retired landlord: $2M, CA, 5 years (Ch. 8)	$129,047 less tax; $145,777 ahead; cash wins only above about 7.2% gross	Account passes the cash sale's in year 5; higher annual fee from year 6; $36,729 behind, even by year 37	$60,000; ahead of the cash sale every year; $23,271 ahead
Business owner: $5M, CA, $1M cash + 10 years (Ch. 8)	$296,764 less tax; $267,723 ahead; break-even about 6.7%	$1,000,000 managed from day one; $166,736 behind, even by year 49; if the proceeds were headed elsewhere, $1,102,583 of new fees	$120,000; behind from year 5; $46,736 behind
Living on it: $5M, CA, 5 years, $150,000 a year spent (Ch. 4)	$230,524 ahead after tax (untouched: $36,406); $2,246,625 ahead if years 2 and 3 fall 20%, $1,098,138 behind if they rise 20%	$115,377 behind; $209,601 ahead in the down-market test	$150,000; ahead every year at 6%; $34,623 ahead
Carve-out: $5M, CA, 10% cash + 10 years (Ch. 12)	97% of the tax saving; $401,310 ahead (no carve-out: $371,922)	$500,000 managed from day one; $176,038 behind (no carve-out: $203,951)	$135,000; behind from year 5; $41,038 behind
When cash wins: $1.5M, NV, 5 years (Ch. 8)	Saves $10,205 but leaves them $112,290 behind: take the cash	The cash sale pays you more too: $482,846 of fees against $422,423	$45,000 doesn't close it: $15,423 behind. Say cash.

TAKEAWAY

Show the client's column first. If it says cash, the other two don't matter.

DO THIS NOW

- [ ] Fill in the one-page ledger for one real client, the client's column first.
- [ ] If the client's column says cash, tell the client so, and stop there.
- [ ] Bring the page to your next meeting with the client and the CPA.

PART IV · DOING IT RIGHT

CHAPTER

14

The Objections, Answered Straight

The compliance officer's first word was "annuity." *Her second was "no." Then she read the side-by-side, the disclosures and the cases where the answer is cash, and asked better questions. This chapter is her list.*

Fiduciary advisors are right to be skeptical of anything with "annuity" in the description. Here are the objections we hear most. Where an objection holds, we say so.

"**It's an annuity sale in disguise.**" The client doesn't buy or own an annuity. The client sells property and agrees to be paid on a schedule; an assignment company takes on that obligation and funds it, often with an annuity it owns. The client's decision is a tax and cash-flow decision: when to receive the sale proceeds. Judge it on the after-tax numbers, as you would any planning recommendation, and drop it when cash wins.

"**Annuities carry high fees and surrender charges.**" No annual fee is billed to the client, and there's no account value to surrender: the client owns no contract and has nothing to cash in. That doesn't make it free. The cost is in the rate: the insurer's pricing, the assignment company's margin and any commission are built into the payout rate, so the comparison that matters is the rate quoted against the applicable federal rate and against a second quote. That's also the honest downside: the client can't get out early at any price (next objection).

"**My clients need liquidity.**" Then they keep it. Money the client may need goes in the cash piece at closing, not the structure. Once the sale closes, the schedule can't be sped up, cashed out or borrowed against, and the proceeds

of a loan secured by the right to payments are treated as a payment (IRC §453A(d)). A client who can't live with that shouldn't structure.

"**There's a commission, so there's a conflict.**" Yes. A commission points toward recommending a structure, and it has to be disclosed in writing before the client decides. Three things keep it in its place: the client's numbers decide (Chapter 8 includes a case where they say no); a fee-only advisor receives nothing from the specialist, so the only pay interest left is the advisory fee, which a structure lowers for years against a cash sale (Chapter 10); and the specialist's pay is stated in writing, here in this book (about 4% to the brokerage, the author's share about 2.4%, one time, no trail; that's the author's own disclosure, not a market rate). For a real case, ask for it in dollars, next to the payout rate, before the client decides.

"**I'd rather invest the tax savings.**" That is the comparison, and it's already in the numbers. The cash seller invests the whole price on day one at the same return and pays the tax at the end of the year; the structured seller invests each payment after its tax. The break-even return tells you when investing up front wins. In the main California example it's about 6.1% gross every year for the 5-year structure and 6.7% for the 10-year. The model also leaves portfolio growth untaxed on both sides, which favors the cash seller.

"**Fixed payments lose to inflation.**" True. Level payments lose purchasing power. A rising schedule helps, at a lower starting payment, and the investment portfolio carries the growth job. For most clients the schedule is a fraction of the plan, not all of it.

"**What if the insurer fails?**" Then the payments are at risk. The client is an unsecured creditor of the assignment company, which depends on the life insurer that funds it. State guaranty associations may not cover the structure; don't count on them. Check the insurer's financial strength in writing at the time of the sale, and size the structure as one exposure inside a diversified plan.

"**Will the IRS respect it?**" Section 453 is settled law. No published IRS ruling addresses the specific assignment structure used in a structured sale, and the IRS could argue the seller was paid in full at closing. The pressure point is real. In a 2021 Chief Counsel memo on a different arrangement, the "monetized installment sale," the IRS wrote that under Section 453(f) "Debt in-

struments issued by a party that is not the 'acquirer' would be considered payment" (CCA 202118016; Chief Counsel advice isn't precedent). The regulations also treat a buyer's note secured by cash or a cash equivalent as a payment (Treas. Reg. §15a.453-1(b)(3)(i)), and a seller who can reach the funding can be taxed on it under the economic-benefit and constructive-receipt doctrines. A structured sale is documented so that the buyer's obligation is assigned and the seller has no right to the annuity or the funding. That is exactly what the client's CPA and attorney should test before closing.

"**What if the client dies during the schedule?**" The payments go on to the heirs, but they're income in respect of a decedent: taxed as received, with no step-up in basis. A client who would otherwise hold the property until death would get a step-up on it, so for an older client in poor health a five- or ten-year schedule can cost the heirs more than the bracket savings. If the estate paid federal estate tax, the heirs get a deduction for the part attributable to those payments (IRC §691(c)); most estates owe none. Run the death case before you recommend the term.

"**It's just seller financing.**" No. In seller financing the client is the buyer's lender, with default risk, foreclosure and early payoff. In a structured sale the buyer pays in full at closing and is gone; the obligation runs from the assignment company.

"**Won't the specialist go after my client?**" A specialist shouldn't, and you should ask for that in writing. The working rules this book proposes: the specialist designs the structure and gets the quotes; you keep the investment plan and the assets; the CPA owns the return and checks every number; the attorney owns the purchase agreement. The author doesn't manage money or recommend investments.

"**My compliance department won't allow it.**" Ask them. For a fee-only advisor who refers out and takes nothing, the questions are usually short: disclosure, documentation, and the advisory fee on proceeds as they arrive. For a life-licensed advisor, there's more: appointment, training, Form ADV disclosure and outside business activity approval (Chapter 15). Bring them the chapter.

TAKEAWAY

Put every real objection in writing, next to the numbers.

DO THIS NOW

- [ ] Write down every objection the client or the CPA raises, with the answer and the number behind it.
- [ ] Send that list to the CPA with the side-by-side.

CHAPTER

15

Licensing, Compliance and Getting Paid

"***Can I get paid on this?***" *A dually registered advisor asked it at a study group. The short answer depends on which licenses you hold.*

Your licenses decide your role. Your compliance department decides the details. This chapter is a map, not legal advice. Rules differ by state, by registration and by firm. Before you refer a client, share in any compensation or change what you disclose, check with your compliance department.

Three kinds of advisor

IF YOU ARE...	YOUR ROLE IN A STRUCTURED SALE	HOW YOU CAN BE PAID
A fee-only advisor with no insurance license	Spot it, run the side-by-side, coordinate the team, introduce a licensed agent	Your advisory fee on the proceeds as they arrive. No commission, no referral fee.
An advisor who also holds a life license	All of the above, and possibly place the structure, if appointed and your firm allows it	Possibly the insurer's one-time commission, or a share of the placing agent's commission, disclosed as a conflict
A registered representative of a broker-dealer	As above, within your broker-dealer's outside-activity rules	As your broker-dealer allows

The rules that apply to everyone

- **You are a fiduciary.** An investment adviser owes a duty of care and a duty of loyalty, and must eliminate or make full and fair disclosure of conflicts

so the client can give informed consent. Saying you "may" have a conflict isn't enough when you actually do, and disclosure doesn't replace the duty to give advice that is in the client's best interest (SEC Release IA-5248, 2019).

- **Selling insurance takes a license.** In California, no one may solicit, negotiate or effect an insurance or annuity contract without a license (Cal. Ins. Code §1631). The model law most states build on bars paying or accepting a commission for selling, soliciting or negotiating insurance without the required license (NAIC Producer Licensing Model Act #218, §13). An unlicensed advisor should not share in an insurance commission, and should not negotiate the contract. Advisors who are also attorneys: in California, an agent who isn't an attorney may not share a commission or other compensation with an active member of the State Bar (Cal. Ins. Code §1724).
- **Advising is not soliciting.** The same model law notes that people who give general insurance advice while providing financial planning or investment advisory services are not, by that alone, soliciting insurance (Model #218, §4 drafting note). California's code doesn't repeat that note, and it defines transacting insurance to include solicitation and negotiations before a contract is signed (Cal. Ins. Code §35). So stay on the advice side: run the side-by-side and make the introduction, and leave quoting rates, recommending a specific contract and negotiating terms to the licensed agent.

If you're fee-only

You can do everything in this book except take a commission. The introduction to a licensed agent costs you nothing, and when the agent pays nothing to unlicensed referrers (I don't), there is no paid-referral arrangement in either direction. The SEC marketing rule's conditions for paid testimonials and endorsements (disclosure, a written agreement and disqualification checks; payments of $1,000 or less over 12 months are excused from the last two, not from disclosure) apply when an adviser compensates someone for referring clients **to** the adviser (17 CFR §275.206(4)-1(b)); they aren't triggered by an unpaid referral out.

Keep it that way. If any payment flowed back to you, from anyone, you would be in different territory: Form ADV asks about economic benefits from non-clients (Part 2A, Item 14.A), industry standards for the "fee-only" label bar sales-related compensation (CFP Board Standards; NAPFA Fiduciary Oath), and the CFP Board's definition of Sales-Related Compensation expressly includes compensation "from the referral of a Client to any person or entity other than the CFP® Professional's Firm," and state insurance law limits who can be paid for insurance sales. Whether a flat, non-contingent referral fee to an unlicensed person is allowed varies by state; we found no California authority permitting it, so this book doesn't suggest one.

Why do it with no license at all? Because the numbers in Chapters 4 and 8 are the client's, and they're large: in the California example, up to $371,922 more wealth at year 20 on the 10-year schedule. Because the account ends larger, from the year the last payment lands. And because when the proceeds were headed to a 1031 exchange or the bank, every dollar of fee on them is new.

If you hold a life license

You may be able to place the structure yourself, subject to your firm, your appointment with the program and your state. What comes with it:

- **Appointment and training.** An agent acts for an insurer only when appointed by it. California also requires a one-time eight-hour annuity training course and ongoing annuity continuing education before transacting annuities (Cal. Ins. Code §10509.9205).
- **Disclosure on Form ADV.** If you or your supervised persons accept compensation for the sale of investment products, Part 2A Item 5.E asks you to say so, explain that it is a conflict and an incentive, tell clients they can buy through others, and say whether you reduce advisory fees to offset commissions. Part 2B Item 4 covers a supervised person's insurance activity, which the Form ADV glossary treats as "investment-related." Form CRS asks you to describe third-party payments and the conflicts they create, and how your professionals are paid (Items 3.C and 3.D). Many firms treat any annuity or funding-agreement commission as disclosable under Item 5.E; do the same.

- **A share of the placing agent's commission.** Some specialists split commissions with other licensed agents. I share compensation only with advisors who hold an active life insurance license (and any required appointment), with their firm's approval, disclosed in writing to the client in dollars. A split divides the same commission; it doesn't add to the cost built into the client's rate. Under the CFP Board's Standards, an advisor who takes a share can no longer describe their compensation as fee-only, and the same is true if the share goes to the advisor's firm or a related party. And in California an agent who isn't an attorney may not share with an active member of the State Bar at all (Cal. Ins. Code §1724).
- **Fees on top of commissions.** In California, a registered investment adviser acting as an adviser is exempt from the separate life and disability insurance analyst license (Cal. Ins. Code §1831(e)). Whether you may charge advisory fees on proceeds from a structure you were also paid to place, and whether you must offset, is a firm policy and disclosure question. There is no fee to charge on payments you don't manage: until a payment arrives, it isn't in your account.
- **Best interest.** California's annuity best-interest rules (Cal. Ins. Code §§10509.9200 to 10509.9210, for sales from January 1, 2025) require a producer recommending an annuity to act in the consumer's best interest, to disclose whether the producer is paid by commission or fee, and, on request, to give a reasonable estimate of that pay (§10509.9204(a)). An investment adviser representative acting under the Advisers Act can satisfy them through a comparable-standards safe harbor (§10509.9204(e)). The only settlement exemption covers personal injury and other claim resolutions (§10509.9202(b)(5)), not property sales. Whether these rules reach a structured sale at all, when the annuity is owned by an assignment company and the seller is only a payee, isn't settled (NAIC Model #275; §§10509.9201, 10509.9203). Follow the issuing insurer's requirements, and don't assume the transaction is exempt.

If you're a registered representative

FINRA Rule 3270 requires prior written notice to your broker-dealer before you're compensated for any business activity outside the firm, including insurance sales through an outside agency, and the firm may limit or prohibit it. The SEC approved FINRA Rule 3290 in September 2026 to replace Rules 3270 and 3280, and it expressly covers acting as an insurance agent; its effective date hasn't been announced (SEC Release No. 34-106381). Check with your firm.

§ FOR YOUR COMPLIANCE TEAM

Primary sources for this chapter: SEC Release IA-5248 (2019); 17 CFR §275.206(4)-1 and Release IA-5653 (2020); Form ADV Part 2A Items 5.E, 10.C, 14; Part 2B Item 4; Form CRS Instructions Items 3.C, 3.D; Cal. Ins. Code §§35, 1631, 1724, 1725.5, 1831(e), 1848, 10509.9200 to 10509.9205; NAIC Model Acts #218 (§§4, 13) and #275; FINRA Rule 3270; SEC Release No. 34-106381 (Rule 3290). This is a summary for discussion, not legal advice.

TAKEAWAY

Your licenses decide your role; your compliance department signs off first.

DO THIS NOW

- [ ] Decide which of the three kinds of advisor you are, and check what your firm allows.
- [ ] Get your compliance department's sign-off on the referral, in writing, before the first client meeting.
- [ ] If you share a commission, get the disclosure written in dollars.

CHAPTER

16

Spotting the Clients and Working With a Specialist

The best structured sale starts with a throwaway line *at a review meeting: "We might sell the building next year." The advisor who hears it, and asks the next question, is the one who wins it for the client.*

The window is before the purchase agreement is signed. After closing, there's no structure to design. So the skill is spotting the sale early.

Who to look for

- **Business owners, especially 52 to 72,** with a sale, a partner buyout or a private equity recapitalization on the horizon. Watch for words like "letter of intent," "quality of earnings" or "the buyer's lawyers."
- **Landlords** who are tired: long-held rentals, a paid-off building, a partner who wants out, a property manager who quit.
- **Farm and ranch families,** where the land has been held for generations, the basis is close to nothing, and farm property is exempt from the Section 453A interest charge.
- **Owners of other privately held assets** with a large gain: a medical practice, a franchise, a stake in a closely held company. (Public stock doesn't qualify.)
- **Clients selling a 1031 replacement property,** whose deferred gain from past exchanges comes due all at once.

The five questions

Ask these at every review with a client who owns something big and private:

1. **"Are you thinking about selling anything in the next two years?"**
2. **"If taxes weren't in the way, would you sell?"**
3. **"Do you need all the money at once, or would part of it on a schedule work?"**
4. **"Has anyone shown you what the sale does to your taxes, year by year, including Medicare and the alternative minimum tax?"**
5. **"Who's on the deal team, and when is the purchase agreement being drafted?"**

A yes to the first two and a "no one" to the fourth is the trigger.

How to bring in a specialist

A structured sale is set up by a licensed insurance agent who works with a structured-sale provider, alongside the client's CPA and attorney. Before you bring one in, run the client yourself: the companion advisor calculator (installmentsalecalculator.com/advisor-calculator/) takes the price, basis, state, age, income, term and your fee, and shows the client's after-tax wealth, the break-even return and your revenue on the same model as this book. If the cash sale wins, you're done. If not:

- **Ask for a side-by-side,** not a pitch: cash, seller financing, a structured sale and, where it fits, a 1031, run by the client's CPA or checked by them.
- **Ask how the specialist is paid,** in writing, before the client meets them, and whether any of it is shared with anyone, including you. In a structured sale the insurer typically pays the agent a one-time commission built into the pricing. The client should know that up front.
- **Keep the team in its lanes.** You own the investment plan. The CPA owns the return. The attorney owns the purchase agreement. The specialist designs the structure and gets the quotes.
- **Get in early.** Two to four weeks before the purchase agreement is final is comfortable. The week of closing is not.

Ground rules worth putting in writing

Advisors who refer comfortably to outside specialists tend to ask for the same few things. Ask for them in writing:

- **The client stays yours.** The specialist doesn't manage money, recommend investments or contact the client about anything outside the sale without you.
- **You're in the room.** Meetings about the structure include you, or you get the notes.
- **The CPA verifies.** Every number in the side-by-side is something the client's CPA can re-run, and the CPA sees the documents before closing.
- **Compensation in writing, up front.** Who pays the specialist, how much in dollars and when, before the client meets them.
- **No means no.** If the numbers favor the cash sale, the specialist says so in writing.
- **A due-diligence file.** The CFP Board's Standards ask a CFP® professional who recommends another professional to have "a reasonable basis" for it, based on the person's "reputation, experience, and qualifications." Ask for license numbers you can look up, experience with structured sales, how the specialist is paid, and a sample side-by-side.

What it takes to refer

A skeptical CFP® professional's bar, and a fair one. Refer when all of these hold; if any is missing, the answer is cash:

- The gain is large enough to cross brackets the client wouldn't otherwise fill.
- The comparison is after tax, after fees and at a return you'd plan on, with the note interest taxed, the 3.8% tax and Medicare surcharges on, and the death case run.
- The cash at closing covers spending, reserves and taxes. The client can say the plan still works if a payment stops.

- The client's own CPA (and tax attorney, where needed) has read the purchase agreement and the assignment documents and is comfortable reporting it as an installment sale.
- Two quotes, with the commission in dollars.
- You receive nothing from the specialist, in cash or in kind; or, if you're licensed and share the commission, your firm has approved it and the client has it in writing, in dollars.

About me, plainly

I'm Hans Goldstein, an Enrolled Agent (EA), admitted to practice before the Internal Revenue Service, and a licensed insurance agent in California (CA Insurance License #4273294). I am **not** a CPA or an attorney, and I am not a registered investment adviser. I run side-by-side comparisons with a tax engine and work with the client's own CPA and attorney.

If a client chooses a structured sale that I place, the insurer pays a one-time commission of about 4% of the amount structured to the brokerage firm that places it, and my share is about 2.4%. It's built into the pricing and disclosed in writing before anyone signs. There's no trail. If the client takes cash, seller financing or a 1031, I earn nothing. **I pay nothing to unlicensed referrers.** I share compensation only with advisors who hold an active life insurance license (and any required appointment), with their firm's approval, disclosed in writing to the client in dollars. A fee-only CFP® professional can refer and take nothing; an advisor who accepts a share is no longer fee-only under CFP Board rules. **I don't touch the investment plan.** I don't manage money or recommend investments, and the proceeds stay with you.

NEXT STEP

If a client has a sale coming, send me the rough numbers (price, basis, other income, state, timing). I'll tell you in a short, free scope call whether a full side-by-side for you and the client's CPA is worth it for that sale; the Comprehensive Tax & Exit Analysis behind it is $5,000 per household per transaction. No obligation. Hans Goldstein, 213-414-2808, hans@goldsteinco.net. *Hans Goldstein, a licensed insurance agent (CA Insurance License #4273294), will contact you and may discuss insurance products, including annuities.*

TAKEAWAY

The window closes when the purchase agreement is signed.

DO THIS NOW

- [ ] Put the five questions on your review agenda for every client who owns something big and private.
- [ ] Ask who has listed, or had an offer fall through, and why it didn't close.
- [ ] Start a due-diligence file on the specialist: license numbers, experience, how they're paid.
- [ ] For the first yes, run the calculator and ask for a side-by-side before the purchase agreement is signed.

CHAPTER

17

Pairings That Multiply the Payment Years

A structure changes more than the tax on the gain. *It changes when the client needs everything else: Social Security, the IRA, the sale-year paycheck, the survivor's return, the heirs. That is planning work, and most of it is yours. This chapter covers the pairings that move real money, the insurance products that fit around a schedule, and the suitability rules that come with them.*

One rule first: never tie the structured sale to a product purchase. The structure has to stand on its own numbers. Any annuity or life insurance recommendation is a separate decision, documented on its own, in the client's best interest. If the structure only works because a product comes with it, it doesn't work.

> **HOW TO READ THE NUMBERS (MODEL RUN, ILLUSTRATION ONLY)**
>
> These come from a separate model on the same tax engine (research/synergies_20261002), on three standard cases. **Rental:** a California couple, both 64 and retired, sells a $3,000,000 rental for a gain of $1,800,000, taken in 10 level yearly payments of $369,088 at 5%; other income $30,000; full Social Security benefits $3,600 and $1,800 a month at 67. **Business:** a $5,000,000 S corporation asset sale, owner 60, $1,000,000 of recapture, $350,000 of wages in the sale year. **Widow:** 80, single, selling a rental late in life. 2026 tax tables carried forward, no inflation. Model runs, not predictions or promises.

Planning pairings (no product involved)

1. The payments bridge Social Security to 70. Each year past full retirement age adds 8% for life, to 124% at 70. Benefits claimed at 64 also land in the payment years, when up to 85% of them is taxable. On the rental case,

claiming both at 70 instead of 64 left the couple $243,000 to $346,000 more after tax over their lives, depending on when the husband dies (80 to 90), or $83,000 to $138,000 in today's dollars at 3%. The bridge costs nothing extra: six years of benefits given up total $311,040; one year's payment is $369,088. If the higher earner claims early, the survivor inherits the larger of his reduced check or 82.5% of his full amount, so the cost of claiming early falls on the widow. Installment gain and interest are not earnings for the earnings test; consulting fees or wages from the buyer are.

2. Roth conversions in the payment years, before 75. Required minimum distributions start at 75 for clients born in 1960 or later, and they stack on top of whatever payments are still arriving. Given a $1.5M IRA, the same couple's lifetime tax on the IRA was $633,627 on a 10-year schedule and $929,387 on a 30-year one with no conversions: **the long schedule's hidden cost is about $296,000.** Converting in the early payment years added $176,315 to $492,942 of family wealth on the 10-year schedule and $635,583 to $952,210 on the 30-year one (heirs at 24% to 40%). The model filled the 24% bracket, about $1.67M converted, which is aggressive; it charged the Medicare surcharges and the 20% capital-gain rate the conversions trigger. Pick the schedule length and the conversion plan together. An RMD can't itself be converted, so the window closes at 75.

3. A retirement plan for the sale year's recapture. A structure spreads capital gain, not recapture: §453(i) puts all of it in the sale year, usually the owner's last big paycheck year. On the business case, a $300,000 cash balance contribution plus $35,750 of 401(k) deferrals (for an owner whose prior-year wages top $150,000, the $11,250 catch-up must be Roth under §414(v)(7) and isn't deductible) cut year-one tax by $183,972 and was worth about $71,629 in present value after the later tax on the money and an assumed $30,000 of staff contributions ($34,457 for a $150,000 plan). **Start it two to three years before the sale:** §415(b)(5) phases the benefit limit in over 10 years of participation, so in a plan's first year the benefit limit is a tenth of the full amount. It needs W-2 or self-employment pay from the sponsor (installment gain isn't compensation), and staff must be covered. A plan adopted after the asset sale purely to absorb recapture and terminated right after is the pattern Reg. §1.401-1(b)(2) targets. If the plan later rolls to an IRA, the

2024 DOL Retirement Security Rule no longer applies (vacated; 91 FR 13503, March 20, 2026), but California's annuity best-interest rules apply in full to any annuity recommended with the rollover.

Insurance pairings, with the suitability note each one needs

I'm insurance-licensed, so these are products I can offer. That is a conflict of interest, and it is why each one below carries its suitability test.

4. A MYGA for the closing-cash reserve. Clients often keep a reserve at closing. In a bank it is taxed every year at the client's top rates, because the payments already fill the brackets. In a MYGA (a fixed deferred annuity with its rate set for a term of years), interest isn't taxed until withdrawn (§72(e)), so it can come out after the schedule ends, in lower brackets. On the business case, $600,000 at the same 4.75% both ways: a taxable CD reached $1,188,674 after 20 years; the annuity path, withdrawn level from 2037 to 2046, reached $1,376,905, about **$188,000 more.**

Suitability: the client already has a large fixed stream, so the file must say why more fixed money fits and how liquidity is covered. Keep a true emergency fund outside it; surrender charges apply. The gain is ordinary income and net investment income when withdrawn (§1411(c)(1)(A)), with a 10% additional tax before 59½ (§72(q)), and it gets no step-up at death (it is income in respect of a decedent). It depends on the insurer's ability to pay; state guaranty association limits exist, but don't market them.

5. Life insurance for the survivor's tax. The payments don't change when one spouse dies; the brackets do. From the year after the death the survivor usually files single and the Medicare surcharge lines are roughly halved. On the rental case, with the husband dying at the end of 2029, the widow pays $18,956 more (5-year schedule), $117,155 (10-year) or $339,771 (20-year) in income tax and surcharges. *Suitability:* a single-life policy on the spouse likely to die first, sized to that number and timed to the schedule, or simply a shorter schedule. Health and age gap decide which.

6. Life insurance for the step-up the sale gives up. Hold a rental until death and the heirs inherit it at its value then (§1014); sell it, even on a schedule, and the gain is taxed: some to the seller, the rest to the heirs as income in respect of a decedent (§691(a)(4)). On the widow case, the sale creates **$495,800** of gain tax that holding until death would have erased. Sometimes selling is still right (she can't manage it, she needs the liquidity). The cost is measurable, so a policy can be sized to it: a new policy owned by an irrevocable life insurance trust keeps the death benefit out of the estate (§2042) and out of income (§101(a)(1)). *Suitability:* at 80 the premium can approach the benefit. Quote first, promise nothing.

The conduct rules on every one of these

- **California annuity best interest.** For annuity sales on or after January 1, 2025, Cal. Ins. Code §§10509.9200 to 10509.9210 apply. §10509.9204(a): a producer "shall act in the best interest of the consumer ... without placing the producer's or insurer's financial interest ahead of the consumer's interest." The recommendation rests on the consumer profile (age, income, liquidity needs, existing assets, tax status, time horizon), with care, disclosure, conflict and documentation obligations.
- **Seniors.** Annuity training is required before selling annuities (Cal. Ins. Code §1749.8). Buyers 60 and older get a 30-day free look (§10127.10). Sections 785 to 789.10 impose a duty of honesty, good faith and fair dealing toward people 65 and older.
- **Replacements.** Any exchange of an existing contract is a replacement: compare surrender charges, lost benefits and new contestability, and document why it helps the client.
- **Language.** No promises and no claims that money escapes tax. Say "excluded from income under §101(a)" and "the insurer's contractual promise." Name no insurer in anything you publish.
- **Referral pay.** Commission is shared only with licensed producers. No commission or finder's fee to an active member of the State Bar (Cal. Ins. Code §1724), and I pay nothing to unlicensed referrers.

Pairings that don't work

- **Pledging the payments** for premium financing or any loan: for most sales over $150,000, the loan is treated as a payment received (§453A(d)), and the contract forbids it anyway.
- **A QLAC bought with closing cash.** A qualifying longevity annuity contract is IRA or plan money only (up to $210,000 in 2026).
- "**The payments are creditor-protected like an annuity.**" The client owns a right to payments, not the annuity that funds them. No authority we found extends annuity exemptions to that right. Don't say it.

§ FOR YOUR COMPLIANCE TEAM

20 C.F.R. §§404.313, 404.338, 404.409-404.410; 42 U.S.C. §§402(e)(2)(D), 403(f)(5); §408A(d)(3)(A), (d)(6)(B)(iii); §401(a)(9)(C)(v); §408(d)(3)(E); §§401(b)(2), 404(a)(6), 415(b)(5), 453(i); Reg. §1.401-1(b)(2); 91 FR 13503 (2026); §§72(e), 72(q), 1411(c)(1)(A); §§1014, 691(a)(4), 2042, 101(a)(1); §§1(a), 1(c), 2(a); 42 U.S.C. §1395r(i); §453A(d); Reg. §1.401(a)(9)-6(q); Cal. Ins. Code §§785-789.10, 1724, 1749.8, 10127.10, 10509.9200-10509.9210. Model: research/synergies_20261002 (results.json T1-T6). This is a summary for discussion, not legal advice.

TAKEAWAY

The schedule is the bond sleeve; plan Social Security, the IRA and the survivor around it, and keep every product decision separate.

DO THIS NOW

- [ ] For each client with a likely sale, put the Social Security claiming age and the IRA's RMD start year on the same page as the schedule.
- [ ] For a married client, run the survivor's return on the schedule before choosing its length.
- [ ] Document every annuity or life recommendation on its own best-interest form, separate from the sale.

PART V · THE WHOLE RETURN

CHAPTER

18

Tax Attributes: Planning the Payment Stream Around the Return

Six months after the sale, the CPA found a $400,000 net operating loss *from a business the client closed in 2019. On ten even payments, it would have been spent on gain that was headed for the 0% and 15% brackets anyway. Nobody had asked about it before the schedule was set.*

A client's return carries more forward than passive losses. Tax people call these items **tax attributes**: net operating losses, capital loss carryforwards, suspended losses, investment interest, charitable carryforwards, credits. Each one reacts to **when** the gain lands. Some are worth more when the gain is spread, some are worth less, and a few expire if you wait. The planning move is not "spread everything." It is **sizing the cash at closing and the payment stream to the attributes the client actually holds.** That's work you're already set up to do: you see the whole return, every year.

The net operating loss: 80%, no skipping, and the model

Three rules decide what an NOL is worth against an installment gain:

1. **Losses from 2018 on offset only 80% of taxable income** in a year, figured before the NOL itself and the QBI deduction (IRC §172(a)(2)). The rest carries forward with no end date. Losses from before 2018 carry forward 20 years, have no 80% cap, and are used first.
2. **No skipping a year.** The NOL is used in the first year it can be, against whatever income is there, including gain that would have been taxed at 0%.
3. **Ordinary income first,** then the gain, starting with the building-depreciation layer taxed at up to 25%.

Rule 2 is the one that matters for a schedule. Spread the gain thinly, and the NOL soaks up gain that would have landed in the 0% and 15% brackets. It gets used, but it saves little.

> **EXAMPLE (MODEL RUN, ILLUSTRATION ONLY)**
> A retired couple, $60,000 of other taxable income, a $400,000 NOL from 2018 or later, and a $1,000,000 long-term gain. Federal tax, the 3.8% tax and Medicare surcharges caused by the sale over ten years, 2026 rules held flat, note interest left out of every column (research/tier2_attributes_20261007/model.py, run A).

SCHEDULE (MODEL RUN)	TAX WITH THE NOL	WITHOUT THE NOL	WHAT THE NOL IS WORTH
All cash at closing	$109,396	$212,462	$103,066
Ten equal $100,000 slices	$39,723	$91,650	$51,927
$450,000 at closing, the rest over nine years	$24,946	$115,570	$90,624

Read it the way you'd read an asset-location study. The even schedule cut the tax the most before the NOL, but it cut the NOL's value in half. Sizing the cash at closing to the NOL kept almost all of its value and most of the spreading benefit, and produced the lowest total. **The move, when the NOL**

is large next to a year's taxable income: cash at closing sized to the NOL, a structured payment stream for the rest. When it is small, even payments use it up in a year or two anyway.

What can strand an NOL. The 80% cap only delays. Three things can actually cost it: a pre-2018 loss near its 20-year limit (a 2006 loss expires after 2026); death, because an NOL can be used on the final return but doesn't pass to heirs or the estate; and California for 2024 through 2026, which suspends the NOL deduction only in a year when **both** net business income and modified AGI (before the NOL) are $1,000,000 or more (R&TC §17276.24(c), as amended Stats. 2026, ch. 236; the carryover is extended, not lost). A seven-figure 2026 California rental sale can idle the California NOL for that year; a schedule that keeps 2026 business income under $1,000,000 lets it work now.

The other attributes, one by one

- **Suspended passive losses on the building sold (§469(g)).** The building's own gain absorbs them first, as the gain is recognized, so on a real gain they're usually used in the first payment year or two. Only an overall loss is released in proportion to each year's gain (§469(g)(3); Form 8582 instructions, Dispositions). They come off income taxed at ordinary rates while the gain keeps its lower rates (Chapter 6).
- **Suspended passive losses on rentals the client keeps (§469).** If the sold building was passive in the year of sale, each year's installment gain stays passive income. Losses from rentals the client keeps or buys meet it every payment year at full value. This is the one attribute that wants the gain spread.
- **Capital loss carryforwards (§1212).** They offset gain in any year, so spreading doesn't unlock them, and it can make them worth less: a $100,000 carryforward saved $23,800 against a cash-year gain taxed at 20% plus 3.8%, but only $9,165 against ten $100,000 slices, because much of it cancelled 0% gain (model run D). They end at death (IRS Pub. 559).
- **Excess business losses (§461(l)).** The cap is $512,000 for a joint return in 2026 (Rev. Proc. 2025-32 §3.31), made permanent by the 2025 law

(P.L. 119-21 §70601). The disallowed part becomes an NOL. For a real estate professional who keeps buying, a schedule that lands business gain in the same years lets the gain absorb new losses under the cap instead of turning them into more 80%-capped NOLs.

- **Investment interest (§163(d)).** Interest disallowed on Form 4952 waits for investment income. The note's interest is investment income every year, at ordinary rates: a natural match. Electing to treat gain as investment income (§163(d)(4)(B)) also works, but the elected gain gives up its 15% or 20% rate.
- **Charitable carryforwards (§170(d)).** Five years, limited each year to a share of AGI (30% for appreciated stock to a public charity). Smaller payment years mean smaller room while the clock runs. A $150,000 carryforward with two years left fits in a $1,100,000 cash year; at about $195,000 of AGI a year, about $33,000 expires (simple example).
- **Medicare (IRMAA) and Form SSA-44.** Surcharges read modified AGI from two years earlier, in cliffs: the 2026 joint tiers start above $218,000 and the top tier starts at $750,000 (CMS, 2026 Part B and Part D income-related amounts). For a couple with $150,000 of other income and a $1,000,000 gain: one cash year costs $13,872; ten $100,000 slices $22,968; five $200,000 slices $46,200; fifteen smaller slices that stay under $218,000 cost $0 (model run B, 2026 amounts). **A sale is not a life-changing event for a Form SSA-44 appeal** (20 CFR §418.1205; SSA POMS HI 01120.005). Stopping work, a spouse's death, divorce or a lost pension can be, so when one happens in the payment years, file the form that year; the payments still count. Plan the tiers before closing.

When spreading helps, and when it cuts both ways

THE EDGE	SPREADING HELPS WHEN	IT CAN COST WHEN	MODEL NUMBERS
Net operating loss	Cash at closing is sized to the NOL	An even schedule spends it on 0% and 15% gain	Worth $103,066 in a cash year, $51,927 on ten even slices, $90,624 sized (run A)
Capital loss carryforward	It meets gain taxed at 15% or 20%	It cancels 0% gain; any left at death is lost	Saves $23,800 against a cash year, $9,165 against ten $100,000 slices (run D)
Passive losses on rentals kept	Each year's gain meets each year's losses	Rarely	Every payment year, at full value
Charitable carryforward	A larger year gives the 30% limit room	Small years shrink the room while the clock runs	About $33,000 expires on $100,000 slices (simple example)
Medicare surcharges	Every year stays under a tier line	Mid-size slices sit in a tier for years	Cash year $13,872; ten slices $22,968; five slices $46,200; fifteen $0 (run B)
The 0% and 15% brackets	No attributes: each year refills them	Attributes are forced to absorb that low-taxed gain	One $200,000 year $31,645; four $50,000 years $6,660 (model run)
Year-one recapture	Cash at closing covers the year-one tax	Little cash at closing, tax due anyway (§453(i))	Count it before sizing anything
Notes over $5,000,000	The year's notes stay at or under the line	An interest charge on the deferred tax (§453A)	At 7%, the IRS underpayment rate for October to December 2026 (IRB 2026-36)
California	Lower brackets; no 1% surcharge over $1,000,000	California real property stays California-source if the client moves	See below

THE EDGE	SPREADING HELPS WHEN	IT CAN COST WHEN	MODEL NUMBERS
Death during the payments	Heirs receive the schedule, taxed as paid	No step-up on what's left (§691(a)(4), §1014(c))	Same as a cash sale on this point

Model runs: 2026 federal rules held flat, note interest left out, undiscounted (research/tier2_attributes_20261007/model.py). Illustrations, not forecasts.

Four groups: how to plan the payment stream

Every attribute falls into one of four groups, and each group has its own move. This is the frame for the side-by-side.

GROUP	WHAT IT MEANS	THE MOVE	MEMBERS
A. Recurring	New every year	Spread, so each year's gain meets each year's items	Passive losses from rentals and K-1s the client keeps; losses harvested against each year's slice; investment interest; business losses under the §461(l) cap
B. One-time	A fixed pile, used once	Front-load when the pile is large next to a year's taxable income: size the cash at closing to it	NOL (including excess business loss carried forward); capital loss carryforward; the sold building's own suspended losses; a charitable carryforward before it expires; suspended passive credits
C. Thresholds	Lines the income crosses	Fill each year to just under the line	The 0% and 15% brackets; the 3.8% tax ($250,000 joint, not indexed); Medicare tiers; Social Security taxation; the QBI deduction; the Marketplace credit; California brackets and the 1% surcharge
D. Plan around	Timing can't fix them	Fund them or avoid them	Year-one recapture (§453(i)); notes over $5,000,000 (§453A); the §1231 lookback; AMT and the minimum tax credit; payments left at death (§691)

The best plan usually does both: cash at closing sized to group B, then a payment stream sized to groups A and C, with D funded from the closing cash.

Dynamite or waterfall: sizing the cash to year one's losses

A client taking boot in a 1031 will ask: "Why not cost segregate the new property and wipe out the tax on the boot?" Two answers, both short. **Trade-down with cash boot:** no excess basis, so no bonus (IRC §1031(d); Treas. Reg. §1.168(k)-2(g)(5)(iii)). Hypothetical, 2026 law: sell for $3,000,000, basis $800,000, buy $2,500,000, take $500,000 out. Replacement basis $800,000, excess basis $0. **Trade-up with new money:** buy $3,500,000 with $1,000,000 of new debt and still take the $500,000. Excess basis is $1,000,000. At an assumed 25% reclassified (15% to 30% is $150,000 to $300,000), a first-year loss of $250,000 meets half of the boot gain, which is passive income (Temp. Reg. §1.469-2T(c)(2)). That is dynamite: one blast in year one.

What it costs and leaves. The $1,000,000 of new debt costs about $74,000 a year at 7.40% (30-year home loan average, Freddie Mac, October 8, 2026; a reference rate, not a quote), and a new loan reprices the whole new balance. Cost segregation on the new property does not beat an installment sale every time: on a larger sale with a cash carve-out it usually does not reach far enough, and it takes new borrowing to get there. Boot over time needs no new loan.

What it leaves for the other years. The replacement and the client's other passive holdings keep producing losses. With all the boot taken as cash, those later losses have no passive gain to meet. The rule is sizing: **cash up to what year one's losses can absorb (suspended losses plus any first-year study loss), the rest over time.**

HYPOTHETICAL: $500,000 OF BOOT GAIN, $150,000 SUSPENDED, $20,000 OF NEW LOSS A YEAR, STUDY AT 25% ($250,000), 2026 TO 2030	CASH BOOT IN 2026	LOSSES USED	GAIN WITH NO LOSS TO MEET	LEFT SUSPENDED AFTER 2030
A. Dynamite, all cash	$500,000	$420,000	$80,000, all taxed in 2026	$80,000
B. Waterfall only, $100,000 a year, no study	$100,000	$250,000	$250,000, over 2027 to 2030	$0
C. Mix: $420,000 cash, $80,000 over four years	$420,000	$500,000	$0	$0

Model: research/dynamite_20261010/model.py. The numbers are built to be tidy; a real client's will not line up this neatly. Reclassification shares are assumptions, not a study. Not tax advice.

> **A 1031 ALONE IGNORES THE ESTATE PROBLEM**
>
> Buy, borrow, die uses the step-up to erase income tax. The 40% estate tax above $15,000,000 per person is still there. Chapter 20 has the numbers.

When the client says "buy, borrow, die." Advisors hear it often. Run the fair test, with both paths as 1031 exchanges: A is a full exchange followed by a loan for the same dollars, B is an exchange with the cash part (the boot) taken as an installment note sized to the suspended losses, no new debt on the replacement. An independent check run on October 10, 2026 rebuilt the comparison and tested 114 items; its numbers are used here. Hypothetical, 2026 law: a $3,000,000 rental, basis $800,000, $300,000 of suspended passive losses and $20,000 of new loss a year; loan 7.5% with a 1% fee (home equity average 7.33%, Bankrate, October 7, 2026; 30-year 7.40%, Freddie Mac, October 8, 2026), a 5.0% cap rate less a 0.5% reserve, 5.0% on the balance and a 2% structured-sale fee (all assumptions), top-bracket California household.

$500,000 OF BOOT, LEVEL 10-YEAR NOTE	A. 1031, THEN BORROW	B. 1031 PLUS INSTALLMENT BOOT
Cash received	The same spending money, borrowed on the same dates	The same spending money, note principal plus interest after tax
Tax on the gain	$0 (step-up at death)	$0 on the gain (losses meet it), with about 12 cents a dollar back at the top bracket; the note's interest is taxed
Interest paid	Rent stops covering it in about year 6; about $19,000 a year out of pocket from year 11	None
Family net at death, 2% growth, year 10 / year 20	Ahead by $26,655 / behind by $16,204	Behind / ahead

What the check found. Against cash, the installment path won every case. Against a loan, the best structure is the playbook, not a long level note: cash at closing equal to the losses on hand plus the first year's loss ($320,000), then each year's new loss, never more than the pool. Its break-even price growth is about 2.6% to 3.0% at death (about 2% for the level note) and 5.7% to 6.8% if the client sells while alive. The loan wins on faster growth, on a death within about 7 years (the unpaid note has no step-up), and for clients who can borrow at 5% to 6.3% against a large portfolio. **Do not force the answer.**

Run first, and confirm: a debt-free building cannot also throw off $20,000 a year of new tax losses, so ask where the pool comes from (other passive holdings, a leveraged property or cost segregation) and what the household's net passive result is each year. Ask the client: what will the loan interest be classified as, given what the money buys? Fixed or floating, with what fees, and who can freeze it? What is unpaid at each point if the client dies?

What it is worth in dollars (hypothetical). If the boot is mostly unrecaptured §1250 gain (up to 25% plus the 3.8% tax), federal tax is about $144,000. A $250,000 ordinary loss at an assumed 37% bracket plus 3.8% is worth about $102,000 of that; California's $66,500 on the boot is untouched.

A related option: skip the exchange, sell in a taxable sale and buy separately, so the whole price is fresh basis for a study; the gain's tax is then due, so have the CPA run it next to the exchange.

Trade-offs, once: new debt at the lender's rate of the day (the full table of dated rates is in the Waterfall Strategy chapter "What It Costs to Borrow Today"); no bonus in California (FTB Form 3885A instructions, 2025; other states, ask); less depreciation later; ordinary-rate recapture on a later sale (§1245; §453(i) puts it in year one of an installment sale); the §1245(b)(4) check; and, if the loss is not passive, the §461(l) cap ($512,000 joint, 2026, Rev. Proc. 2025-32 §3.31). Deferral helps in nearly every case, not always.

> **ASK THE CPA**
>
> (1) What is the excess basis, by component, after land? (2) Is the §1.168(i)-6(i) election wanted, and by when? (3) Is the loss passive for this client, and does §461(l) apply? (4) What are losses and boot gain by year for five years, and how much cash fits in year one?

California: a renamed surcharge and a frozen code

- **The 1% surcharge has a new name.** California's extra 1% on taxable income over $1,000,000 (not doubled for joint returns) is now the **Behavioral Health Services Tax** (Form 540, line 62; FTB 2025 Form 540 instructions; R&TC §17043). A $2,000,000 gain taken in one year pays about $10,600 of it; ten $200,000 slices pay none (model run).
- **California follows the Internal Revenue Code as of January 1, 2025** (R&TC §17024.5; FTB 2025 Form 540 instructions). The 2025 federal law (P.L. 119-21) doesn't carry over unless California adopts it, and California never followed bonus depreciation (R&TC §17250(a)(11)). Expect the California return to differ from the federal one on depreciation, the NOL and the §461(l) cap. Ask the CPA for both.
- **A move doesn't take California gain with it.** Gain on a California building stays California-taxable after the client leaves; the note's interest follows the new home state (FTB Pub. 1100, rev. 10/2024, Example 7).

§ FOR YOUR COMPLIANCE TEAM

§§172(a)(2), (b)(1)(A); 461(l) (P.L. 119-21 §70601; Rev. Proc. 2025-32 §3.31); 469(g)(1)(A), (g)(3); 1211(b), 1212(b); 163(d)(1), (4)(B); 170(b)(1), (d)(1); 453(d), (i); 453A; 691(a)(4); 1014(c); 42 U.S.C. §1395r(i); 20 CFR §418.1205; R&TC §§17024.5, 17043, 17250(a)(11), 17276.24(c); FTB Pub. 1100 (rev. 10/2024). Model and ledger: research/tier2_attributes_20261007/ (model.py runs A, B, D; RESEARCH.md). Education, not tax advice.

TAKEAWAY

List the attributes before you pick the schedule; the best plan sizes the closing cash to the one-time piles and spreads the rest.

DO THIS NOW

- [ ] For each client with a likely sale, pull Forms 8582, 8582-CR, 4952, 8801 and 461, the Schedule D carryforward, five years of Form 4797, the NOL worksheet and any charitable carryforward schedule.
- [ ] Sort what you find into groups A to D on one page.
- [ ] Ask the CPA for three runs: all cash, an even schedule, and cash at closing sized to group B with a payment stream for the rest.

CHAPTER

19

What Equity Costs: The Client Who Wants to Keep and Borrow

"***I'll keep the buildings and borrow against them when I need cash.***" *It's a reasonable plan, and for some clients it's the best one. It isn't free, and you're often the one who can price it.*

In October 2026, getting equity back out of real estate costs roughly 7% to 13% or more a year, and some clients can't get it out at all. Price it with the same discipline you'd use for any source of cash.

What equity costs this month

SOURCE OF CASH	RATE	SOURCE AND DATE
Home equity line (HELOC), national average	7.33% (lenders surveyed: 3.99% to 11.85%)	Bankrate, October 7, 2026
Home equity loan, 5-year, national average	8.56%	Bankrate, October 7, 2026
Prime rate (most HELOCs float over it)	7.00%	Federal Reserve via FRED, October 2, 2026
Bank or portfolio commercial loans, fixed	6.38% to 9.49% indicative	Commercial Loan Direct, October 10, 2026
Bridge or debt-fund loans, floating	6.00% to 13.00% indicative, plus points and fees	Commercial Loan Direct, October 10, 2026
Hard-money commercial loans	Generally 7% to 12%, plus points	commercialrealestate.loans hard-money guide, accessed October 7, 2026

Indicative ranges, not quotes. Rates move weekly; get a dated quote before relying on one.

The blended cost: the number clients miss

A cash-out refinance doesn't add a loan; it **replaces** one. If the old loan was cheap, the new cash carries the cost of losing it. Measure it at the margin, the way you'd measure a marginal tax rate.

> **EXAMPLE (ILLUSTRATION)**
> a $1,000,000 loan at 4%, refinanced to $1,500,000 at 7%, inside the 6.38% to 9.49% indicative range for bank commercial loans (Commercial Loan Direct, October 10, 2026). New interest $105,000 a year; old interest $40,000; extra interest $65,000 for $500,000 of new cash. **Blended cost of the new cash: $65,000 ÷ $500,000 = 13% a year,** before fees and any prepayment charge.

The formula: (new loan x new rate − old loan x old rate) ÷ cash taken out.

A second loan leaves the first alone. A HELOC (7.33% average, Bankrate, October 7, 2026) behind a cheap first loan costs only its own rate on the new cash. Mezzanine money costs more than the first loan, and many first-loan lenders limit or forbid a second lien.

Who can get equity back at all

THE CLIENT OWNS	EQUITY ACCESS LATER
A whole property	Yes, by refinance or a second loan at the rates above, if rent covers the new payment (lenders often require about 1.25 times)
A Delaware statutory trust interest	**No equity access, in practice.** The trust can't take new loans or renegotiate its debt (Rev. Rul. 2004-86), lenders rarely accept a beneficial interest as collateral, and sponsor documents commonly restrict pledging it. Cash comes from distributions until the sponsor sells
Structured sale payments	No borrowing against them either; a loan secured by the payments counts as a payment received (§453A(d)). But the cash arrives on a schedule chosen before closing

$500,000 over ten years, priced

The client needs $50,000 at the start of each year for ten years.

TEN YEARS (MODEL RUN, ILLUSTRATION)	INTEREST PAID	STILL OWED IN YEAR 10
Borrow at 7.33% (HELOC average, Bankrate, October 7, 2026)	$201,575	$500,000
Borrow at 8.56% (home equity loan average, Bankrate, October 7, 2026)	$235,400	$500,000
Borrow at 12% (top of the hard-money range, commercialrealestate.loans, accessed October 7, 2026)	$330,000	$500,000
Borrow at 13% (the blended cash-out example)	$357,500	$500,000
Structured payments of $50,000 a year	$0	$0; tax due on each payment's gain
Delaware statutory trust interest	Not available	Distributions only

Model run: draws at the start of each year, interest paid yearly (research/tier2_attributes_20261007/model.py, run L). Interest on money borrowed to spend is generally personal interest and not deductible (§163(h); Temp. Reg. §1.163-8T).

Reading it. At the average HELOC rate, borrowing against a property earning about 7.5% a year roughly breaks even and keeps the gain untaxed. For an older client who will hold until death, the step-up can make that the better plan. Above about 8.5%, the loan costs more than the equity earns, and a cash-out refinance that resets a cheap first loan can cost 13% or more on the new cash.

TAKEAWAY

Equity the client can't reach, or can reach only at 9% to 13%, is worth less than it looks; price it before the client decides to keep it.

DO THIS NOW

- [ ] Get one dated quote for a HELOC or second loan and one for a cash-out refinance on the property the client would keep.
- [ ] Run the blended-cost formula on the refinance with the current loan's balance and rate.
- [ ] Put the borrowing plan, the structured payments and a Delaware statutory trust side by side for the same cash need.

CHAPTER

20

Big Estates: Payments That Fund an ILIT

Most of your clients are under the line. For the ones who aren't, the payment stream is a funding source you can plan around.

The 2026 lines

WHAT	2026 AMOUNT	SOURCE
Federal estate and gift exemption	**$15,000,000 per person**, $30,000,000 for a married couple with portability	IRC §2010(c)(3) as amended by P.L. 119-21 (OBBBA, July 4, 2025); Rev. Proc. 2025-32 §2.14
After 2026	Indexed for inflation from 2027; no scheduled sunset (Congress can still change it)	Rev. Proc. 2025-32 §2.14
Top estate and gift tax rate	**40%** above the exemption	IRC §2001(c)
Annual gift exclusion	**$19,000 per recipient, per giver**; $38,000 from a married couple	IRC §2503(b); Rev. Proc. 2025-32 §4.42(1)
Estate tax due	9 months after death	IRC §6075(a)

Many states tax estates far below these lines (for 2026 deaths, Oregon from $1,000,000 (ORS 118.010) and Massachusetts from $2,000,000 (M.G.L. c.65C §2A)). California has none.

The line grows with inflation. The client's money may grow faster.

The exemption is indexed from 2027, about 2.5% a year, so a client who only keeps pace with inflation never reaches it. A client whose net worth beats inflation closes the gap every year. A married couple, age 60 today. The line starts at $30,000,000 and grows 2.5% a year. Estate tax is 40% of everything above it, at the second death:

NET WORTH AT 60	GROWS AT	AT AGE 90
$15,000,000	2.5% (inflation)	$31.5M, tax $0
$15,000,000	6%	$86.2M, **tax $9.3M**
$15,000,000	8%	$150.9M, **tax $35.2M**

The line is only $62.9M by age 90. Future dollars, steady growth, no spending (model run, illustration only; research/ilit_combo_20261007 and the Waterfall Strategy chapter "Buy, Borrow, Die vs 1031 + Installment Sale + ILIT"). The client who is "under the line" today may not be at 90, which is a reason to run the projection at the annual review, with your own growth assumption.

How the payments feed the trust

A lump sum sits in an account and is easy to spend. A structured payment arrives on a date set before closing, which is what a gifting program needs.

1. **The payment arrives.** The client sets aside the tax on it.
2. **The client gifts part of the rest to an irrevocable life insurance trust (ILIT),** up to $19,000 per beneficiary per giver (2026, Rev. Proc. 2025-32 §4.42(1)).
3. **The trustee sends Crummey notices.** Each beneficiary has a short window, often 30 days, to withdraw; nobody is expected to. Notice and a real chance to withdraw make the gift a present interest that qualifies for the exclusion (*Crummey v. Commissioner*, 397 F.2d 82 (9th Cir. 1968); Rev. Rul. 81-7).

4. **The trustee pays the premium.** At death, the benefit is paid to the trust, outside the estate (§2042, with no incidents of ownership held by the insured) and generally outside income (§101(a)(1)).

Set the payment date ahead of the premium date, with room for the window. **Never gift the payments themselves:** giving away the right to payments is a disposition that can make the deferred gain taxable at once (§453B(a)). Gift cash after each payment arrives.

EXAMPLE (MODEL RUN, ILLUSTRATION ONLY)

Tom and Ellen, both 70, California, sell a business for $16,000,000 with a $2,000,000 basis: $4,000,000 at closing and a $12,000,000 note over 20 years at 4.5%, **$922,514 a year.** Other assets $24,000,000, so about $40,000,000 in all. Ten beneficiaries x $19,000 x two givers = $380,000 a year to an ILIT, which buys a $6,000,000 second-to-die policy at an assumed $90,000 a year premium (an assumption, not a quote). **The plan adds $6.03M for the heirs if both die in year 1 and $7.24M if both die in year 20** (research/ilit_combo_20261007/model.py).

ILIT or an irrevocable trust that owns the real estate

Clients ask why not put the building itself in an irrevocable trust. Both move wealth out of the estate, differently:

	ILIT (OWNS A POLICY)	**IRREVOCABLE TRUST THAT OWNS THE REAL ESTATE** (A GIFT, OR A SALE TO A GRANTOR TRUST)
Step-up at death	**Kept** on the real estate the client still owns	**Lost.** Heirs take the old basis and the deferred gain (Rev. Rul. 2023-2)
Suspended losses	Still the client's to use on a sale	Usually stuck with the property; a gift does not free them (§469(j)(6))
Control	Client keeps the property and the decisions	A trustee controls the property
Lenders and deeds	Nothing changes	Every deed changes; a due-on-sale clause may need lender consent
Insurability	Needed	Not needed
Biggest risk	Policy lapses if premiums stop; a transferred existing policy is in the estate if death is within 3 years (§2035)	Low-basis property plus an income tax bill the heirs inherit

The ILIT fits a client over the line or growing toward it who wants to keep the real estate and its step-up, has losses that make the payments light on tax, and is insurable. **It does not fit** a client comfortably under the line with slow growth, or one who cannot qualify. **A property trust fits** high-basis, fast-growing assets and uninsurable clients willing to give up control. **It does not fit** low-basis property or a client with unused suspended losses. Many large estates use both; the estate attorney decides the mix.

The other side, once. Premiums are paid whether or not anyone dies early, and the trust is irrevocable. The unpaid note is in the estate with no step-up, so at a 40% estate tax and a 23.8% federal income tax on what's left, about 54 cents of each dollar of unpaid gain goes to tax (model run). That's why the ILIT matters most in the early years, when the note is largest.

Hans is a licensed insurance agent and may earn a commission if a policy is bought through him; any licensed agent can place it. The trust must be drafted by an estate attorney.

TAKEAWAY

For a client over the line, the payment schedule is the gifting calendar; build it with the estate attorney before closing.

DO THIS NOW

- [ ] Add up the estate, including the full note, and compare it with $15,000,000 per person (2026, Rev. Proc. 2025-32 §2.14) and the client's state line.
- [ ] Count annual-exclusion beneficiaries and multiply by $19,000 per giver (2026).
- [ ] Name the contingent payee in the structured sale documents to match the estate plan.

CHAPTER

21

Should the Client Do It? A Quick Check

Two questions, in order: should the client do it, and if so, how is it set up to keep the most? *Use this page at the review where the sale first comes up.*

The deal:

QUESTION	POINTS TO YES	POINTS TO NO, OR A CLOSER LOOK	CHAPTER
Has the sale closed?	Not yet	Closed, or proceeds sit with a qualified intermediary: too late	7
Is the structured piece big enough?	Above the program minimum	Small: seller financing or cash may fit better	2
Is the gain large next to the price?	Low basis, long-held	Little gain to spread	3
Is there something to time?	Attributes in groups A to C	None, and the gain lands in the top bracket either way	18
How much cash does the client need now?	Covered by cash at closing	Most of it, now	12

The client:

QUESTION	POINTS TO YES	POINTS TO NO, OR A CLOSER LOOK	CHAPTER
Age, health and heirs	Selling anyway, wants income	Short horizon and could hold: the step-up may win	7
Return you'd plan on	Near or below the break-even	A high-return, all-equity plan	5
Medicare and Social Security	Years can stay under the lines	Mid-size slices sit in a tier for years	6
Equity the client would keep	Borrowing costs more than the equity earns	Cheap borrowing and a hold until death	19
Estate	Under the line, or a gifting plan fits the payments	Needs the whole payment every year	20

Mostly yes: run the advisor calculator. **Mixed:** ask the CPA for three runs (all cash, even payments, and cash at closing sized to the attributes with a payment stream for the rest). **Mostly no:** a cash sale, a 1031 or holding may be better, and saying so is the win.

The dials, all set before closing: cash at closing (year-one tax, recapture, group B); each year's payment (groups A and C); the term; anything mixed in (a 1031 with structured boot, an opportunity-zone fund); the payment dates and the contingent payee.

DO THIS NOW

- [ ] Go down the ten questions with the client. Mark each yes, no or not sure.
- [ ] Send the "not sure" lines to the CPA with the attribute page from Chapter 18.

ONE PAGE

The Client Conversation Guide

Ask, in this order. One question at a time, at a regular review, long before a buyer's lawyers are involved.

ASK	LISTEN FOR	WHAT TO SAY
"Are you thinking about selling anything in the next two years?"	A building, the business, the farm, a partner buyout	"Then let's plan the sale like we plan your withdrawals: before it happens."
"If taxes weren't in the way, would you sell?"	"Yes, but the tax..."	"There's more than one way to be paid. Let me show you the numbers on each."
"Do you need all the money at once?"	A home, a cushion, a debt, a gift	"Whatever you need stays in cash at closing. Only the rest is a question."
"Has anyone shown you the tax year by year, with Medicare?"	"Our CPA will do the return"	"The return is too late. The choice has to be made before the purchase agreement."
"Who's on the deal team, and when is the agreement drafted?"	A date	"I'd like your CPA and me to see it before it's final."

When the client asks:

THE CLIENT SAYS	WHAT TO SAY
"Is this an annuity?"	"You'd sell your property and be paid on a schedule. You don't buy or own an annuity. Judge it on what you keep after tax."
"Can I get my money early?"	"No. Once it closes, the schedule is fixed. That's why anything you might need stays in cash."
"What if the company that pays me fails?"	"The payments depend on one insurer and the company it backs. We check its strength in writing and keep it one part of your plan."
"Wouldn't I do better investing the tax savings?"	"Maybe. Here's the return at which cash wins. Would you plan on beating it every year?"
"Who gets paid?"	"The specialist is paid a commission built into the rate, and you'll see it in dollars before you decide. I'm paid my usual fee on what comes in." (If you share in a commission, say so, in dollars.)
"What if I die during the schedule?"	"The payments go to your heirs, taxed as they arrive, with no step-up. We'll run that case too."

Words to avoid: anything that promises an outcome or sounds like a trick. Say "fixed payments," "taxed as they arrive" and "settled law under Section 453, with no IRS ruling on the assignment itself."

Close with a next step: "Let's get your basis and the rough price, and I'll bring a side-by-side, cash against a schedule, to our next meeting with your CPA."

ONE PAGE

The Advisor's Checklist

Before the purchase agreement is signed:

- ☐ Is a sale of real estate, a private business or farmland likely in the next two years?
- ☐ Is the asset eligible? Not publicly traded stock, not dealer property or inventory; recapture taxed in year one.
- ☐ How big is the gain, and how many tax years does it take to bring it under the top brackets?
- ☐ What does the client need in cash, and when? Keep one to two years of spending, any known purchase and the year-one tax at closing (the carve-out); structure the rest.
- ☐ Will the client live on the proceeds? Run the spending case and a down-market test, against the allocation you'd actually use for the cash sale.
- ☐ What else hits in those years: IRMAA look-back, AMT, NIIT, SALT, Social Security, ACA credits, required distributions?
- ☐ Suspended losses, carryforwards, an NOL (groups A to D, Chapter 18)? Borrowing plans (Chapter 19)? An estate near $15,000,000 per person in 2026 (Chapter 20)? Age and health?
- ☐ Is the buyer related? Is any note over $5,000,000?

The side-by-side:

- ☐ A first pass in the advisor calculator (installmentsalecalculator.com/advisor-calculator/). If cash wins, stop there.
- ☐ Cash, seller financing, structured (short and long) and, if relevant, a 1031, all on the same assumptions.
- ☐ Assets under management and client wealth at a return you'd actually plan on, plus a lower and a higher case.
- ☐ Note rate quotes (two) at or above the applicable federal rate; each piece above the program minimum.
- ☐ The client's CPA has reviewed it. The attorney has the purchase agreement language.

Compliance:

- ☐ Your role and any compensation, from anyone, disclosed to the client in writing.
- ☐ Your compliance department has signed off on the referral and any outside business activity.
- ☐ A due-diligence file on the specialist: licenses, experience, how they're paid, in writing.
- ☐ Insurer financial strength checked in writing at the time of sale.
- ☐ Everything set up before closing.

REFERENCE

Assumptions and Sources

The engine. Every tax figure comes from the planning engine behind *The Waterfall Strategy*: 2026 federal brackets (Rev. Proc. 2025-32), the Section 1(h) worksheet, the AMT as amended by P.L. 119-21 ($140,200 exemption, phased out from $1,000,000 at 50%), the 3.8% NIIT (IRC §1411, $250,000, not indexed) and California's 2026 rate schedules and standard deduction (FTB inflation adjustment of 3.4%, per the engine as of October 2026) with the 1% surcharge above $1,000,000, all held flat for later years. Standard deduction; the extra deduction at 65 is left out.

The examples. Married filing jointly, both 62 at a 2026 sale, $150,000 of other ordinary income. Main example: $5,000,000 price, $1,000,000 basis, no recapture, no selling costs, all long-term capital gain. Smaller example: $2,000,000 price, $500,000 basis. Structures: the full price, level annual payments at each year end from the sale year. Note rates 4.5% (3 years), 4.75% (5 years), 5.25% (10 years). No Section 453A charge applies: after the first payment, less than $5,000,000 is outstanding at the end of the sale year.

The portfolio model. Same gross return on both sides (6% base; 4% to 8% tested), advisory fee on the year-end balance (1% base; 0.5% to 1.5% tested). Timing, the same on both sides and the same convention as the tax engine, *The Waterfall Strategy* and the calculator: money received at closing is invested at closing, and each year's tax, the sale year's included, is paid at that year's end. Cash sale: the whole price invested at closing, the tax on the sale paid from the account at the end of year 1. Structure: each payment invested at year end after that year's tax on the gain and the interest; cash kept at closing is invested in full at closing, and its tax is part of the year-1 tax paid at year end. Paying the cash sale's tax at closing instead would charge its large bill a year early and tilt every comparison toward the structure. No tax on portfolio income or growth on either side, which favors the cash sale. No commission is added on top: the note rates are the rates the seller would receive. These are assumptions for illustration, not forecasts, and not investment advice.

The six clients (Chapter 8). Run on the model behind the companion advisor calculator (installmentsalecalculator.com/advisor-calculator/), which uses the same tax engine and the same portfolio model as this book. Inputs as stated in each case. Two engine inputs the calculator doesn't take were added where noted: the

active-business exclusion from the 3.8% tax (the business owner) and suspended passive losses (the doctor); the calculator-only results are given alongside. Commission shown at an illustrative 3% of the amount structured. Medicare surcharges from the same engine, counting only the sale's own income, with Medicare from 65.

The short-schedule grid (Chapter 11). The same advisor-calculator model: married couple, 62, $150,000 of other income, basis 20% of the price, no depreciation, 2 to 10 years at the illustrative rates (4.5% to 3 years, 4.75% to 7, 5.25% from 8), 0% to 50% kept as cash at closing, $1,500,000, $3,000,000 and $5,000,000 sales, California and Texas, 4%, 6% and 8% gross, 1% fee, 3% commission where shown. 972 runs; every cell can be re-run in the calculator.

Spending and carve-outs (Chapters 4, 10, 12 and 13). The same advisor-calculator model, main example. Spending: $150,000 a year after tax at each year end on both sides; the cash sale withdraws it from the account; the structure spends its after-tax payment first, invests any excess and withdraws any shortfall. Only spending withdrawals are taxed: 25% of the gain share of what is sold (average cost), grossed up so both sides net the same spending; fees and the sale's tax bill leave untaxed, as in the base model. "After tax" wealth is each account less 25% of its unrealized gain. Stress tests: 6%, then -20% (or +20%) in years 2 and 3, then 6%, on both sides. Carve-outs: 0% to 60% of the price kept as cash at closing, invested at closing, its gain taxed in the sale year; commission on the amount structured. Every figure can be re-run in the calculator.

Practice research (Chapter 9). Cerulli Associates press releases (November 14, 2023; February 4, April 23, May 6 and September 1, 2026); Cornerstone Business Services, 2025 National Study on Selling Your Business, as reported by Scott Bushkie on the Exit Planning Institute blog (August 6, 2026); Vanguard, *Putting a value on your value: Quantifying Vanguard Advisor's Alpha* (February 2019); Kitces.com (Kitces, December 11, 2013; Zoller, May 8, 2017; podcast with Ali Nasser, March 18, 2025); *Journal of Financial Planning*, "The Best Way to Get Referrals: Stop Asking for Them" (January 2013); CFP Board, Code of Ethics and Standards of Conduct (fee-only and Sales-Related Compensation). Surveys report what respondents said; no number in this book depends on them.

Advisor revenue. The advisory fee above, year by year; present values at 5% over 30 years. Commission: a one-time payment at placement of 2%, 3% or 4% of the amount structured, an illustrative range (actual commissions vary by program, term and brokerage split, are paid by the insurer, and are built into the payout rate).

Medicare. CMS 2026 Part B and Part D income-related tiers, held flat for later years (the real thresholds are indexed, so later surcharges are overstated); premium year equals income year plus two (42 U.S.C. §1395r(i)); only the sale's own income (gain, note interest and the $150,000 of other income) counted.

Part V (Chapters 18 to 21). Attribute examples: research/tier2_attributes_20261007/model.py (runs A, B, D and L), 2026 federal rules held flat, note interest left out; ledger in RESEARCH.md. Medicare tiers: CMS 2026 Part B and Part D income-related amounts. California: FTB 2025 Form 540 instructions (line 62, Behavioral Health Services Tax; conformity to the IRC as of January 1, 2025). Rates: Bankrate HELOC and home equity averages, October 7, 2026; FRED prime rate, October 2, 2026; commercialrealestate.loans indicative ranges, September 28 and 29, 2026 closes, hard-money guide accessed October 7, 2026. Estate: Rev. Proc. 2025-32 §§2.14, 4.42(1); P.L. 119-21; ILIT example research/ilit_combo_20261007/model.py. Every rate is dated where it appears; rates change, so get a dated quote.

Statutes cited. IRC §§453(b), (c), (e), (g), (i), (k); 453A(b), (d); 469(g); 691(a)(4); 1014(c); 1411; 164(b)(7) (SALT); 55 (AMT). IRC §§483, 1274 (imputed interest); Treas. Reg. §15a.453-1(b)(3)(i); Temp. Reg. §1.469-1T(d)(1); Form 8582 instructions (Dispositions); IRS Pub. 925; CCA 202118016. IRS Pub. 559. Rev. Rul. 2026-19 (October 2026 AFRs). Chapter 15 lists its own sources.

REFERENCE

Important Disclosures

This book is education for financial professionals. It is not tax, legal, accounting, investment, securities or insurance advice, and reading it does not create an advisory relationship. It is not a recommendation of any investment, portfolio, market return or product, and nothing in it has been reviewed or approved by any firm's compliance department. Have the client's own CPA and tax attorney, who are not paid on any product, check everything before anyone acts. Check with your compliance department before any referral or compensation arrangement.

Every example is an illustrative composite. The people are invented. The mechanics are real. The tax figures come from one planning engine using 2026 federal law and, where noted, California law. The market return, fee and note rates are assumptions. Small changes in facts can change the answer completely. No result is typical or promised, and past or assumed returns do not predict future results.

In a structured sale, payments are owed by an assignment company, usually funded by a fixed annuity it owns from a highly rated life insurer; some programs use a funding agreement instead. The seller is an unsecured creditor of the assignment company. Payments depend on the assignment company and on what funds it. They are not bank deposits, not FDIC-insured, and possibly not covered by any state guaranty association. Do not count on that coverage. The structured sales described here are fixed; Hans does not offer variable or indexed products. No published IRS ruling addresses the specific assignment structure used in a structured installment sale, and the IRS could argue the seller was paid in full at closing.

Commission disclosure. When an annuity-funded structured sale is placed, Hans may be paid a commission by the insurer, currently about 2.4% of the amount structured (his share of a total commission of about 4%, paid once by the insurer and split with the brokerage firm that places the structure; no trail). It is built into the rate, not taken as a separate fee. If a structure is funded another way, his pay will be disclosed in writing before anyone decides. He earns nothing on seller financing, a cash sale, a 1031, a Delaware statutory trust or doing nothing, unless the client later buys an insurance product from him. That is a conflict of interest. He pays nothing to unlicensed referrers; he shares compensation only with advisors who hold an active life insurance license (and any required appointment), with their firm's approval and disclosed in writing to the client in dollars. He sells no securities.

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REFERENCE

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