

Installment Sales of Depreciable Property by Non-Dealers

A sale of depreciable personal property at a gain generates ordinary income to the extent of any depreciation recapture. This ordinary income is fully taxable in the year of sale even if no sales proceeds are received in that year.

Example: Taxpayer T, in the 37 percent bracket (assuming there is no Section 199A deduction available), sells machinery in 2019 for a \$1 million note payable in 2020. T's gain is \$900,000 (\$1 million less \$100,000 basis). \$800,000 of this gain is due to depreciation recapture. T must report gain as follows:

2019 ordinary gain:	\$800,000
2020 Section 1231/capital gain:	\$100,000
Total gain:	\$900,000

T must pay tax of \$296,000 (37 percent of \$800,000) for 2019, even though the note proceeds will not be received until 2020.

Planning Suggestion: If possible, an installment seller of depreciable personal property should consider structuring the transaction to receive enough cash by the due date of the tax return to meet the first year's tax on the installment sale. In the above example, T should negotiate to receive an installment payment of at least \$296,000 by April 15, 2019. Please consult your advisor for further guidance.