

DST: Tired of Business/Property Ownership or Just Retiring?

Deferred Sales Trust is partnering and adding profit to brokers who solve problems. Do you know someone whose ownership of real estate is just not their preferred profession? After a few years they want out but don't want to pay the capital gains tax? I just helped a gentleman who is 50 years old. He had been renting out warehouses for 20 years and is bored. His other businesses he is excited about and enjoys. If he sold, he would have more than \$2 million in gain not counting the taxes on the recapture.

According to the U.S. Small Business Administration, 50 percent of all businesses and properties are owned by Baby Boomers thinking about retirement. The American Banking Association says that \$17 trillion worth of assets will transfer to the next generation within the next 20 years.

The SBA states that of the 1.2 million businesses that go for sale every year, less than 20 percent (210,000) will sell. Why do so many businesses not sell and what is the possible answer to our gentleman above? There are five major



Les Simpson
Deferred Tax
Benefits Inc.

reasons owners don't sell, discussed in my previous articles, which are on my website. One of the biggest is the upfront taxes due on the sale.

As of Jan. 1, federal taxes were raised from 15 percent to 23.8 percent for anyone who makes a profit of \$450,000 on the sale. Then state tax in Colorado is 4.6 percent. So with \$3 million of taxable profit, the owner pays \$840,000 taxes, upfront.

If a person just wants more real estate, he can always try for a 1031 exchange and get another building. But, more than 20 percent of exchanges fail and people pay the tax anyway. When a person is in his 70s or 80s, decision time is coming. Does he just want to have a management company take over the property and let it pass to the children, paying possible higher Estate Tax rather than Capital Gains?

What if the property has more equity value than rental value? In other words, when a person sells

the equity in the building and receives the money at capital gains rate, it is much less than ordinary income tax they pay on rental income – much more spendable after tax income.

Fortunately, there is a program out there that few know about, in this part of the country, called a Deferred Sales Trust. This is a proprietary trust that has been used for 20 years for more than \$2 billion of businesses/property transactions to solve some of the five reasons mentioned above. It was developed by a tax attorney. It has very unique benefits. The property owner sells the property to the DST. The DST issues an installment note under IRS Code 453. Any trust can do that and no taxable event has happened. The seller just pays taxes on the payment from the installment note.

The uniqueness of this trust is the buyer of the property simultaneously buys the property out, leaving cash and no taxes due by the trust. DST is proprietary and no prying eyes can see the secrets without signing an NDA. But what is most beneficial of this trust is what happens to the \$3 million and the upfront \$840,000

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say \$600,000, pay the taxes and buy another smaller building. He can even dissolve the trust and pay all taxes. Banks that will allow them to borrow on the possible income stream from the trust.

The DST can solve many problems but one question I am always asked: Has it gone through the courts? The answer is unique in the fact it has never been challenged by the IRS. In fact, because the solutions that the DST can work individually, the IRS has examined and reviewed them 12 times over the 20 years and has not challenged or changed anything with it.

The DST is being used by brokers to resolve retirement and estate problems at the rate of more than \$40 million in business and property sales a month. The DST has complete marketing system for brokers who want to solicit large property owners who want to retire but don't know how. They even partner with the brokers with a residual income stream for 10 years for each property sale they make utilizing the DST. DST is a dream come true for brokers who want bigger sales and for owners wanting to retire.▲

tax that was deferred. There are quite a few things that can be done.

It is usually recommend that part of the money be put in an annuity to guarantee the person retirement money. One of the five reasons people don't sell is they are worried about their money lasting 30 years if they live longer because of medical technology. The seller can have his money in the market at what risk tolerance he wants. If the spouse decides she needs go back to work after a couple years, she can withdraw

The DST: An innovative and effective tool to Defer Capital Gains Taxes

There are significant benefits to the Seller/Taxpayer in electing to use the Deferred Sales Trust when selling their property/capital asset:

- 1. Tax Deferral:** When appreciated property/capital assets are sold, capital gains on said sale is generally deferred until the Seller/Tax Payer actually receives the payments, allowing the principal to grow. With DST, all payments and taxes on the payments can be deferred for future payout as needed.
- 2. Increase Spendable Income:** Sale Proceeds are taxed capital gains vs ordinary income for business income. (19.6% CG vs 39.4% ordinary on \$223K annual income)
- 3. Custom Payouts for Multiple Owners:** Flexible to each owners needs at exit.
- 4. Estate Tax Benefits:** May accomplish an "estate tax freeze" for estate tax purposes.
- 5. Maintains Family Wealth:** When properly structured, the principle inside the subject installment sales note can be preserved with "interest only" or partial principal payments creating the potential to pass on a large portion of the note principal to your legal heirs with proper estate planning.
- 6. Estate Liquidity:** Converts an illiquid asset into monthly payments.
- 7. Retirement Income:** Provides a stream of income that can be used as retirement income. Principal is invested in a variety of choices including guaranteed income.
- 8. Probate Avoidance:** With proper estate planning.
- 9. Eliminates Risk Associated with Ownership:** By utilizing the DST, you have taken an asset that is otherwise "exposed" or liability prone and converted it to a "no-liability" asset.

TAXABLE SALE

\$8,700,00 – Sale Price net of Commission
\$2,200,000 – Loan on Property
\$2,700,000 – Cost Basis
\$6,000,000 – Taxable Gain
\$1,200,000 – Federal Tax Obligation at 20%
\$276,000 – State of CO Tax Obligation at 4.6%
\$228,000 – Obama Health Care Tax Obligation at 3.8%

\$1,704,000 – Total Tax Due
\$4,274,000 – Net Investable Proceeds

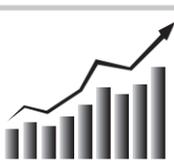
A SALE USING A DEFERRED SALES TRUST™

Find out what the Deferred Sales Trust can do for you, go to: www.mydstplan.com/dtb

\$8,700,00 – Sale Price net of Commission
\$2,200,000 – Loan on Property
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\$6,000,000 – Taxable Gain
Deferred – Federal Tax Obligation at 20%
Deferred – State of CO tax Obligation at 4.6%
Deferred – Obama Health Care Tax Obligation at 3.8%

Deferred – Total Tax Due
\$6,391,250 – Net Investable Proceeds*

*This net will be further reduced by DST fees
(Broker Referral Fees System)



IRS Code 453

Deferred
Tax Benefits, Inc.

Chapter Sponsor
CO-WY CCIM 12

Les Simpson

303-579-6881 • Les@dtaxbenefits.com • www.dtaxbenefits.com
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