Tax & Business Alert

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TURN A REAL ESTATE SALE INTO A TAX-SMART STRATEGY

Selling investment or commercial real estate can result in a substantial tax bill if the property has appreciated significantly. One strategy to help ease your tax burden is an installment sale.

WHAT'S AN INSTALLMENT SALE?

In an installment sale, the seller gets at least one payment after the tax year in which the sale occurs. So, if you sell investment or commercial real estate, instead of receiving the full purchase price all at once, you get payments over time.

This allows you to defer recognition of gain and spread the tax liability over several years. Installment sales can also help attract more buyers because they won't have to pay the entire price upfront and obtaining financing might be easier.

TAX CONSIDERATIONS

Gains from real estate held for more than one year are typically taxed at favorable long-term capital gains rates — 15% for most taxpayers and 20% for higher-income taxpayers. For 2026, the 20% rate applies when taxable income exceeds $545,500 (singles), $579,600 (heads of household), $613,700 (married couples filing jointly) or $306,850 (married couples filing separately). With the gain spread over multiple years, an installment sale may help keep you below the 20% rate threshold.

Depending on your income level, it might also help prevent you from triggering the 3.8% net investment income tax (NIIT), or at least reduce your NIIT

liability. The NIIT applies to net investment income to the extent that modified adjusted gross income exceeds $200,000 (singles and heads of household), $250,000 (joint filers) or $125,000 (separate filers).

However, several tax rules can complicate installment sales. For example, depreciation recapture must be reported as ordinary income in the year of sale, even if payments are received later. Only the remaining gain can be spread out under the installment method. The good news is that if your marginal ordinary rate is 32%, 35% or 37%, depreciation recapture is taxed at only 25%.

Additionally, installment agreements exceeding $5 million may trigger an IRS interest charge on the deferred tax. Special rules apply to related-party sales

2 TYPES OF INSTALLMENT SALES

There are a couple of ways to set up an installment sale:

1. Traditional. This generally involves the buyer making payments directly to the seller under the terms of a promissory note.

2. Structured. Here, a third-party assignment company or financial institution assists with the transaction and oversees the payment schedule. The third party typically assumes responsibility for future payments to the seller, which may reduce the seller's risk.

and may accelerate the remaining tax if the property is resold within two years.

ELECTING OUT

Installment reporting is generally automatic if you sell property and receive at least one payment after the tax year of the sale. However, you can choose to elect out of it and report the entire gain in the year of sale.

This might make sense if you expect higher tax rates in future years, have current-year losses or deductions that could offset the gain, or want to accelerate income for financial planning purposes. When you file your tax return for the year of the sale, you can decide whether to elect out.

MOVING FORWARD

Installment sales can be complex. If you're thinking about selling investment or commercial real estate, contact us to determine whether an installment sale makes sense for your situation. ■

BEFORE YOU SHRED: KNOW WHICH TAX RECORDS TO KEEP

Tax documents can accumulate quickly. While clearing out old files can feel productive, it's important not to discard anything until you've reviewed some record-retention guidelines.

WHY GOOD RECORDKEEPING IS IMPORTANT

Well-organized records make it easier to prepare accurate tax returns and respond if the IRS requests additional information or examines your return. Documents such as receipts and bank statements should support the income, deductions and credits you report.

Good recordkeeping also helps you monitor financial activity throughout the year. And it can simplify preparing future tax returns or amended returns.

THE GENERAL RULE

Records that support a tax return should generally be kept until the statute of limitations expires for that return. In general, the IRS has three years to assess additional tax after a return is filed. Returns filed before the due date are considered filed on the due date.

This three-year window is why you should keep supporting documentation — such as W-2 and

1099 forms, receipts and charitable contribution records — for at least that long.

SITUATIONS THAT EXTEND THE TIMEFRAME

Certain circumstances allow the IRS additional time to review a return. For example, the statute of limitations increases to six years if more than 25% of gross income is omitted from a return.

If a taxpayer fails to file a return or files a fraudulent return, there's no time limit on when the IRS can assess tax.

Additionally, the timeframe for claiming a refund generally extends to three years after filing the return or two years after paying the tax, whichever is later.

DON'T DISCARD THESE RECORDS TOO SOON

Some documents should be retained beyond the typical three-year period because they may affect multiple tax years or support future transactions. These include:

Property and investment records. You should keep records related to property (such as real estate) or investments (such as stocks or bonds) for as long as you own the asset, plus at least three years after it's sold. When these assets are sold, these records are needed to calculate the basis, gain or loss.

Retirement plan records. Retain retirement and pension documents for as long as the accounts have funds and for at least three years after the accounts are closed or funds are withdrawn. Keep records of nondeductible IRA contributions indefinitely to prove taxes were already paid on those amounts.

Bad debt or worthless securities deductions. Records supporting these claims should generally be kept for seven years from the date the return was due.

Filed tax returns. Proof of filing should be kept for at least as long as the statute of limitations applies to that return; however, it's a good idea to keep proof longer for your records.

SEEK GUIDANCE

Don't guess when it comes to tax records. If you're unsure whether to keep or discard certain documents, contact us for guidance. We can help you determine appropriate retention periods so you have the documentation you need if questions arise. ■

PLAN CAREFULLY TO MINIMIZE TAXES ON YOUR INHERITANCE

Getting a large inheritance can create new financial opportunities. But it's important to handle inherited assets carefully, especially when it comes to taxes and planning. Understanding relevant tax rules can help you avoid surprises and make informed decisions.

KNOW THE BASIC TAX RULES

Usually, the value of property you inherit isn't included in your gross income for federal income tax purposes. This means you generally don't owe income tax simply for receiving an inheritance.

However, income generated by inherited property is taxable. For example, interest, dividends or rental income produced by inherited investments or real estate must be reported on your tax return. If you later sell inherited property, any gain may also be taxable. In most cases, the tax basis of inherited property is stepped up to its fair market value at the loved one's date of death. This means that you won't owe capital gains tax on appreciation that occurred before you inherited the asset.

Some inherited assets are classified as income in respect of a decedent (IRD). This refers to income the deceased person earned but didn't receive before death, such as certain retirement account distributions, unpaid wages or deferred compensation. If you inherit IRD, you must generally report the amounts as taxable income. Because IRD can also be subject to estate tax, you may be eligible for an income tax deduction for estate taxes paid on those amounts.

If you've inherited a retirement plan, you generally won't have to pay income tax on the entire balance immediately (unless you withdraw it all immediately). But if you're someone other than the surviving spouse, you probably will have to not only begin taking annual required minimum distributions — which will likely be subject to income taxes unless it's a Roth account — but also deplete the account within 10 years.

GET PROFESSIONAL ADVICE

Estate taxes may apply if the value of your loved one's estate exceeds federal or state exemption thresholds. These taxes are typically paid by the estate rather than the beneficiaries. So before making financial decisions, determine the net value of your inheritance after any estate taxes and other expenses are settled.

With proper planning, an inheritance can strengthen your financial position without leading to unnecessary tax exposure. We're here if you have questions about how inherited assets may affect your current tax situation or long-term financial strategy. ■

HOW HIRING YOUR CHILD THIS SUMMER CAN REDUCE TAXES

The portion of small businesses employing their own children has increased by more than 50% since 2018. This 2025 data from Gusto, a provider of payroll, benefits and human resources software, reflects staffing challenges and a growing interest in involving the next generation in family businesses. From a tax perspective, hiring your minor child this summer, while school is out, can also be advantageous.

The wages you pay your child are generally deductible as a business expense. This deduction can reduce your federal income tax bill, as well as your self-employment tax and state income taxes, if applicable.

Even if your child earns more than the standard deduction, any remaining income is typically taxed at the child's lower marginal rate, likely only 10%. This strategy can reduce your family's overall tax liability.

Additional savings may be available on payroll taxes. If a business is a sole proprietorship or a partnership where both partners are the child's parents, wages paid to a child under age 18 are generally exempt from Social Security and Medicare taxes. Wages paid to a child under age 21 are exempt from federal unemployment tax.

To qualify for these benefits, the job must be legitimate, compensation must be reasonable and proper payroll records should be maintained. Let us know if you'd like to learn more about the tax benefits. ■

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