1991 Department of the Treasury
Internal Revenue Service

Instructions for Form 6252

Installment Sale Income

(Section references are to the Internal Revenue Code unless otherwise noted.)

General Instructions

Paperwork Reduction Act Notice

We ask for the information on this form to carry out the Internal Revenue laws of the United States. You are required to give us the information. We need it to ensure that you are complying with these laws and to allow us to figure and collect the right amount of tax.

The time needed to complete and file this form will vary depending on individual circumstances. The estimated average time is:

Recordkeeping	1 hr., 25 min.
Learning about the law or the form	35 min.
Preparing the form	56 min.
Copying, assembling, and sending the form to the IRS	20 min.

If you have comments concerning the accuracy of these time estimates or suggestions for making this form more simple, we would be happy to hear from you. You can write to both the IRS and the Office of Management and Budget at the addresses listed in the instructions for the tax return with which this form is filed.

Purpose of Form

Use Form 6252 to report income from casual sales of real or personal property (other than inventory) if you will receive any payments in a tax year after the year of sale.

If any part of an installment payment you received is for interest, be sure to report that interest on the appropriate form or schedule. Do not report interest received, carrying charges received, or unstated interest on this form. Get **Pub. 537**, Installment Sales, for details on unstated interest.

You cannot use the installment method for sales after 1986 of stock or securities traded on an established securities market. See section 453(k).

Do not use Form 6252 if you elect not to report the sale on the installment method. To elect out, see the Instructions for **Schedule D (Form 1040)**, Capital Gains and Losses, or **Form 4797**, Sales of Business Property. If you do not use the installment method, report the sale on Schedule D or Form 4797, whichever applies.

Note: *Generally, once you file Form 6252, you cannot later elect out of the installment method. See Pub. 537 for details.*

Report the ordinary income from sections 1245, 1250, 179, and 291 in full in the year of sale even if no payments were received. Figure the ordinary income to be recaptured on Form 4797, Part III.

Which Parts To Complete

For the Year of Sale—Complete items A through E, Part I, and Part II.

For Years After the Year of Sale—Complete items A through E, and Part II, for any year you receive a payment from an installment sale.

Related Party Sales—If you sold marketable securities to a related party, complete Form 6252 for each year of the installment agreement even if you did not receive a payment. See **Installment Sales to Related Party**, below, for the definition of a related party. For any year after the year of sale, complete items A through E, and Part III. (If you received a payment, also complete Part II.)

If you sold property other than marketable securities to a related party, complete the form for the year of sale and for 2 years after the year of sale even if you did not receive a payment. If during this 2-year period you did not receive an actual or deemed payment, complete items A through E, and Part III. After this 2-year period, see **For Years After the Year of Sale,** above.

Installment Sales to Related Party

A special rule applies to a first disposition (sale or exchange) of property under the installment method to a related party who then makes a second disposition (sale, exchange, gift, or cancellation of installment note) before making all payments on the first disposition. For this purpose, a related party includes your spouse, child, grandchild, parent, brother, sister, or a related corporation, S corporation, partnership, estate, or trust. See section 453(f)(1) for more details.

Under this rule, you treat part or all of the amount the related party realized (or the fair market value if the disposed property is not sold or exchanged) from the second disposition as if you received it from the first disposition at the time of the second disposition. Figure the gain, if any, on lines 23 through 30. This rule does not apply to any of the exceptions listed in item H of Part III.

Sale of Depreciable Property to Related Person

Generally, if you sell depreciable property to a related person (as defined in section 453(g)(3)), you may not report the sale using the installment method. For this purpose, depreciable property is any property that can be depreciated by the person or entity to whom you transfer it.

However, you may use the installment method if you can show to the satisfaction of the IRS that avoidance of Federal income taxes was not one of the principal purposes of the sale (*e.g.,* no significant tax deferral benefits will result from the sale).

If the installment method does not apply, report the sale on Schedule D or Form 4797, whichever applies. Treat all payments you will receive as if they were received in the year of sale. Use fair market value for any payment that is contingent as to amount. If the fair market value cannot be readily determined, basis is recovered ratably.

Pledge Rule

If an installment obligation from a nondealer disposition of real property used in a trade or business or held for the production of rental income with a sales price over $150,000 is pledged as security on debt after December 17, 1987, treat the net proceeds of the secured debt as a payment on the installment obligation. This rule applies to the disposition of any property under the installment method after 1988 with a sales price over $150,000, except for farm property and personal use property disposed of by an individual. The amount treated as a payment cannot exceed the excess of the total contract price over any payments received under the contract before the secured debt was obtained.

The pledge rule does not apply to pledges made after December 17, 1987, if the debt is incurred to refinance the principal amount of a debt that was outstanding on December 17, 1987, AND was secured by nondealer real property installment obligations on that date and at all times after that date until the refinancing occurred. However, this exception does not apply to the extent that the principal amount of the debt resulting from the refinancing exceeds the principal amount of the refinanced debt immediately before the refinancing. Also, the pledge rule does not affect refinancing due to the calling of a debt by the creditor as long as the debt is then refinanced by a person other than this creditor or someone related to the creditor.

Interest on Deferred Tax

Interest must be paid on the deferred tax from certain installment obligations. (The rules generally apply to dispositions of real property after 1987, and to dispositions of personal property after 1988.) The interest applies to any installment obligation arising from the disposition of any property under the installment method if:

- The property had a sales price over $150,000 AND
- The aggregate balance of those obligations arising during, and outstanding at the close of, the tax year is more than $5 million.

Exception: *These rules do not apply to dispositions of farm property or dispositions of personal use property by an individual.*

Interest must be paid in subsequent years if installment obligations, which originally required interest to be paid, are still outstanding at the close of a tax year.

How To Report the Interest.—The interest is not figured on Form 6252. See section 453A to figure the interest. Enter the interest as an additional tax on your tax return. Include it in the amount to be entered on the total tax line after credits and other taxes. For individuals, this is line 53 of the 1991 Form 1040. For corporations, it is line 10 of Schedule J (Form 1120). Write "Section 453A(c) interest" to the left of the amount.

Corporations may deduct the interest in the year it is paid or accrued. For individuals and other taxpayers, this interest is not deductible.

Additional Information

See Pub. 537 for details about reductions in selling price, the single sale of several assets, like-kind exchanges, dispositions of installment obligations, and repossessions.

Specific Instructions

Partnerships and S corporations that pass through a section 179 expense deduction to their partners or shareholders should not include this amount on lines 5 and 8.

For the Year of Sale.—If this is the year of sale and you sold section 1245, 1250, 1252, 1254, or 1255 property, you may have ordinary income. Complete Part III of Form 4797 to figure the ordinary income. See the instructions for Part IV of Form 4797 before starting Part I of Form 6252.

Line 1—Selling price.—Enter the total of any money, face amount of the installment obligation, and the fair market value of other property that you received or will receive in exchange for the property sold. Include on line 1 any existing mortgage or other debt the buyer assumed or took the property subject to.

If there is no stated maximum selling price, such as in a contingent sale, attach a schedule showing the computation of gain. Enter the taxable part on line 20 (and also line 28 if Part III applies). See Temporary Regulations section 15A.453.

Line 2—Mortgages and other debts.—Enter only mortgages (or other debts) the buyer assumed from the seller or took the property subject to. Do not include new mortgages the buyer gets from a bank, the seller, or other sources.

Line 4—Cost or other basis of property sold.—Enter the original cost and other expenses you incurred in buying the property. Add the cost of improvements, etc., and subtract any casualty losses previously allowed. For more details, get **Pub. 551**, Basis of Assets.

Line 5—Depreciation allowed or allowable.—Enter all depreciation or amortization you deducted or should have deducted from the date of purchase until the date of sale. Add any deduction you took under section 179 and the downward basis adjustment under section 50(c) or the corresponding provision of prior law, if any. Subtract any investment tax credit recapture amount if the basis of the property was reduced under section 50(c) or the corresponding provision of prior law and any section 179 or 280F recapture amount included in gross income in a prior tax year.

Line 7—Commissions and other expenses of sale.—Enter sales commissions, advertising expenses, attorney and legal fees, etc., in selling the property.

Line 8—Ordinary income recapture.—See the instructions for Parts III and IV of Form 4797 to figure the recapture. Enter the part of the gain from the sale of depreciable property recaptured under sections 1245 and 1250 (including sections 179 and 291) here and on line 13 of Form 4797.

Line 15—Gross profit percentage.—Enter the gross profit percentage determined for the year of sale even if you did not file Form 6252 for that year.

Line 17—Payments received during year.—Enter all money and the fair market value of any property you received in 1991. Include as payments any amount withheld to pay off a mortgage or other debt, such as broker and legal fees. Do not include the buyer's note, any mortgage, or other liability assumed by the buyer. If you did not receive any payments in 1991, enter -0-.

If in prior years an amount was entered on the equivalent of line 25 of the 1991 form, do not include it on this line. Instead, enter it on line 19.

See **Pledge Rule** on page 1 for details about proceeds that must be treated as payments on installment obligations.

Line 19—Payments received in prior years.—Enter all money and the fair market value of property you received before 1991 from the sale. Include allocable installment income and any other deemed payments from prior years.

Lines 21 and 29.—Report on line 21 or line 29 any ordinary income recapture on section 1252, 1254, and 1255 property. This includes recapture for the year of sale or any remaining recapture from a prior year sale. See section 453(i). Also report on these lines any ordinary income recapture remaining from prior years on section 1245 and 1250 property sold before June 7, 1984. Do not enter ordinary income from a section 179 deduction. If this is the year of sale, see the instructions for Part IV of Form 4797.

The amount on these lines should not exceed the total of the amounts on lines 20 and 28.

Lines 22 and 30—Trade or business property.—Enter this amount on Form 4797, line 4, if the property was held more than 1 year. If the property was held 1 year or less, or if you have an ordinary gain from a noncapital asset (even if the holding period is more than 1 year) enter the amount on Form 4797, line 10, and write "From Form 6252."

Capital assets.—Enter this amount on Schedule D as a short-term or long-term gain. Use the lines identified as from Form 6252.

Item H.—If one of the exceptions apply, check the appropriate box. Skip lines 23 through 30. If you checked the last box, attach an explanation. Generally, the nontax avoidance exception will apply to the second disposition if:

- The disposition was involuntary, (*e.g.,* a creditor of the related person foreclosed on the property, or the related person declared bankruptcy), or
- The disposition was an installment sale under which the terms of payment were substantially equal to or longer than those for the first sale. However, the resale terms must not permit significant deferral of recognition of gain from the first sale (*e.g.,* amounts from the resale are being collected sooner).

Line 23.—If the related party sold all or part of the property from the original sale in 1991, enter the selling price of the part resold. If part was sold in an earlier year and part was sold this year, enter the cumulative amount of the selling price.

*U.S. Government Printing Office: 1991 — 285-379