Instructions for Form 6252

Installment Sale Income

General Instructions

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

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	35min.
Preparing the form	56 min.
Copying, assembling, and sending the form to 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 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 questions A through E, Part I, and Part II.

For Years After the Year of Sale—Complete questions 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 a year after the year of sale, complete questions 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 questions 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 related party is your spouse, child, grandchild, parent, brother, sister, or a related corporation, S corporation, partnership, estate, or trust.

The term "related persons" includes two or more partnerships in which the same persons own, directly or indirectly, more than 50% of the capital or profits interests. This provision is generally effective for sales of depreciable property after October 22, 1986.

Use of the installment method is disallowed for transactions where the rules of section 453A otherwise would be avoided through the use of related persons, passthrough entities, or intermediaries. This is generally effective for dispositions in tax years that begin after 1986.

See Pub. 537 for other related party rules that apply to sales after October 22, 1986.

If one of the exceptions in Part III applies, check the appropriate box. Do not complete lines 23 through 30. If you can establish that tax avoidance was not a principal purpose for either disposition, attach an explanation. See Pub. 537 for exceptions where tax avoidance is not a principal purpose.

Sale of Depreciable Property to Related Party

If you sell depreciable property to a related party (as defined in section 1239(b)), the installment sale rules do not apply, unless it is established to the satisfaction of the Internal Revenue Service that tax avoidance was not a principal purpose for the sale.

See Pub. 537 and the regulations under section 453 for more details, including single sales of several assets, disposition of installment obligations, like-kind exchanges, and changes in selling price. Also see section 453(g) for new rules that apply to sales after October 22, 1986, if any of the payments are contingent as to amount and the fair market value cannot be readily determined.

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, the net proceeds of the secured debt must be treated as a payment on the installment obligation. 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 However, the pledge rule includes all types of property sold after December 31, 1988, except personal use property disposed of by an individual, or farm property.

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 December 31, 1987, and to dispositions of personal property after December 31, 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 to 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 54 of the 1990 Form 1040. For corporations, it is line 10 of Schedule J (Form 1120). Write "Section 453A(c) interest" to the left of the amount.

How To Deduct the Interest.—This additional tax may be deductible as interest in the year it is paid or accrued. For individuals, it is treated as "personal interest." Ten percent of personal interest paid in 1990 is deductible on 1990 Schedule A (Form 1040). Personal interest paid in 1991 is not deductible.

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, such as the buyer's note, 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 Regulations section 1.453.

Line 2—Mortgage 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 section 48(q)(1) downward basis adjustment, if any. Subtract 50% of any investment tax credit recaptured if the basis of the property was reduced under section 48(q)(1) and any section 179 or 280F recapture amount included in gross income in a prior tax year See section 48(q)(3) for a special rule that applies to qualified rehabilitated buildings.

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 the year.—Enter all money and the fair market value of any property you received in 1990. 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 1990, enter -0-

If in prior years an amount was entered on the equivalent of line 25 of the 1990 form, do not include it on this line. Instead, enter it on line 19.

See **Pledge Rule** beginning 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 1990 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 remaining from prior years on section 1245 and 1250 property sold before June 7, 1984. Also report on these lines any ordinary income recapture on section 1252, 1254, and 1255 property regardless of when it was sold. This includes ordinary income recapture in the year of sale or any remaining recapture from a prior year sale. See section 453(i). 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.

Line 23.—If the related party sold all or part of the property from the original sale in 1990, 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. GPO: 1990-265-375