

**Topic 705 - Installment Sales**

An installment sale is a sale of property at a gain where at least one payment is to be received after the tax year in which the sale occurs. You are required to report the sale under the installment method unless you "elect out" on or before the due date for filing your tax return (including extensions) for the year of the sale. If you elect out, you report all the gain as income in the year of the sale. Installment sale rules do not apply to losses. You cannot use the installment method to report gain from the sale of inventory or stocks and securities traded on an established securities market.

Your total gain on an installment sale is generally the amount by which the selling price of the property you sold exceeds your adjusted basis in that property. The selling price includes the money and the fair market value of property you received for the sale of the property, selling expenses the buyer paid, and existing debt encumbering the property that the buyer assumes or takes subject to.

Under the installment method, you include in income each year only part of the gain you receive, or are considered to have received. Use [Form 6252](#) (PDF), *Installment Sale Income*, to report an installment sale in the year the sale occurs and for each year you receive an installment payment. You will need to file [Form 1040](#) (PDF), and may need to attach [Form 4797](#) (PDF) and [Form 1040, Schedule D](#) (PDF).

You report interest on an installment sale as ordinary income in the same manner as any other interest income. If the installment sales contract does not provide for adequate stated interest, then you may be required to recharacterize part of the installment payments as "imputed" interest, or as interest under the original issue discount rules, even if you have a loss. You must use the applicable federal rate (AFR) to figure the unstated interest on the sale. The rates are published monthly in the Internal Revenue Bulletin. You can get this information by contacting the IRS at 800-829-1040 or on the IRS website at www.irs.gov.

For additional information, refer to [Publication 537](#), *Installment Sales*.

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