



# Topic No. 705 Installment Sales

An installment sale is a sale of property where you'll receive at least one payment after the tax year in which the sale occurs. You're required to report gain on an installment 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. You may elect out by reporting all the gain as income in the year of the sale on [Form 4797, Sales of Business Property](#), or on [Schedule D \(Form 1040\), Capital Gains and Losses](#) and [Form 8949, Sales and Other Dispositions of Capital Assets](#).

## Situations Where the Installment Method Isn't Permitted

Installment method rules don't apply to sales that result in a loss. You can't use the installment method to report gain from the sale of inventory or stocks and securities traded on an established securities market. You must report any portion of the gain from the sale of depreciable assets that's ordinary income under the depreciation recapture rules in the year of the sale. For additional situations and information about when you can't report payments on the installment method, see [Publication 537, Installment Sales](#).

## Determining Your Total Gain

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, any of your selling expenses paid by the buyer, and existing debt encumbering the property that the buyer pays, assumes, or takes subject to.

## Reporting the Sale on Your Tax Return

Under the installment method, you include in income each year only part of the gain you receive or are considered to have received. You don't include in income the part of the payment that's a return of your basis in the property. Use [Form 6252, Installment Sale Income](#) to report an installment sale in the year the sale occurs and for each year you receive an installment payment. You may need to attach [Form 4797, Sales of Business Property](#) and [Schedule D \(Form 1040\)](#) to your [Form 1040, U.S. Individual Income Tax Return](#) or [Form 1040-SR, U.S. Tax Return for Seniors](#). You must also include in income any interest as ordinary income. For details, see [Reporting Interest](#) below.

## Reporting Interest

You generally report interest on an installment sale as ordinary income in the same manner as any other interest income. If the installment sales contract doesn't provide for adequate stated interest, part of the stated principal may be recharacterized as unstated interest or original issue discount for tax purposes, even if you have a loss.

You must use the applicable federal rate (AFR) to figure the amount of stated principal recharacterized as unstated interest or original issue discount. The AFRs are published monthly in the [Index of Applicable Federal Rates \(AFR\) Rulings](#).

## **Additional Information**

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

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