



OFFICE OF  
CHIEF COUNSEL

DEPARTMENT OF THE TREASURY  
INTERNAL REVENUE SERVICE  
WASHINGTON, D.C. 20224

UIL: 453.00-00

April 27, 2000

Number: **INFO 2000-0041**

Release Date: 6/30/2000



Dear [REDACTED]:

Senator Harry Reid asked me to respond to your letter to him dated February 21, 2000, regarding the recent sale of your business in exchange for a down payment and an installment note payable over fifteen years. Your letter notes the law now requires you to report the entire amount of gain from the sale up front.

The law you refer to is section 453(a)(2) of the Internal Revenue Code, which was added by the Ticket to Work and Work Improvement Act of 1999 and affects sales or other dispositions occurring on or after December 17, 1999. This section states that generally the installment method of accounting does not apply to income from an installment sale if the income would be reported under an accrual method of accounting without regard to section 453 of the Code.

After the Congress enacted section 453(a)(2) of the Code, small business groups expressed concern that the repeal of the installment method for accrual method taxpayers negatively impacted the sales of small businesses, such as yours. The Department of Treasury's Office of Tax Policy has met several times with interested industry groups and listened to their concerns about the effect of this recent legislation on sales of small businesses. These groups also requested clarification on the availability of the installment method for many common disposition transactions. The Internal Revenue Service (IRS) issued clarification on April 10, 2000, in Notice 2000-26 (copy enclosed).

In addition, the IRS issued Rev. Proc. 2000-22 on April 27, 2000, which provides guidance allowing businesses with \$1,000,000 or less in average annual gross receipts to use the cash receipts and disbursements method of accounting (the cash method). If your business qualifies for the small taxpayer exception of Rev. Proc. 2000-22 (copy enclosed), you may obtain automatic consent to change to the cash method for tax years ending on or after December 17, 1999. Section 453(a)(2) does not prevent taxpayers using the cash method from using the installment method for reporting gain on the sale of a business.

I hope this information is helpful. If we can be of further assistance, please contact [REDACTED]  
[REDACTED] of my office or me at [REDACTED]

Sincerely,

Douglas Fahey  
Acting Branch Chief  
CC:DOM:IT&A:5

Enclosures

cc: The Honorable Harry Reid