

Internal Revenue Service

Number: **INFO 2002-0241**

Release Date: 12/31/2002

Index No.: 61.00-00, 453.10-01

Department of the Treasury

Washington, DC 20224

Person to Contact:

Telephone Number:

(202) 622-7900

Refer Reply To:

CC:ITA:2 – GENIN-153771-02

Date:

October 24, 2002

Dear [REDACTED]

This is in response to the letter you sent to the Office of Chief Counsel via facsimile on September 23, 2002, concerning the structure of a proposed purchase of a corporation.

In the situation you describe, in addition to the initial payment in the form of a municipal bond, the buyer will make additional payments to the seller corresponding to the interest the seller will make on a loan to be taken out by the seller. You would like an opinion whether these installment payments may be offset against interest payments made by the seller, rather than reported by the seller in income.

Our office cannot give a ruling binding on the Internal Revenue Service for the benefit of the seller unless the seller applied for such a ruling following the requirements of Revenue Procedure 2002-1, on page 1 of Internal Revenue Bulletin 2002-1, and paid the user fee. However, the following general information may be helpful.

Section 61 of the Internal Revenue Code includes in gross income all income from whatever source derived, including gains derived from dealings in property. As such, installment payments must be reported as income by a seller in connection with the sale of property, normally using the installment method of accounting under §§ 453 and 453A of the Code. The federal tax system does not offset income items against expense items. Instead, income items are added together in determining gross income, and then allowable deductions are subtracted in determining taxable income.

You did not state whether the municipal bond used as collateral would produce tax-exempt interest. If it does, the seller should ask its accountant whether the deduction of interest on its loan, using the bond as collateral, might be barred by § 265(a)(1)(2) of the Code as interest relating to tax-exempt income.

GENIN-153771-02

Hopefully, you will find this information helpful. If you have further questions, please telephone the contact person listed at the beginning of page one.

Sincerely,

Associate Chief Counsel
(Income Tax & Accounting)

By: _____
Clifford M. Harbourt
Senior Technician Reviewer