Internal Revenue Service

Department of the Treasury
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Person To Contact:
, ID No.
Telephone Number:

Refer Reply To:
CC:ITA:B05
PLR-102768-26

Date:
August 11, 2026

In Re:

LEGEND:

Taxpayer	=
Company	=
Date 1	=
Year 1	=
Year 2	=
Year 3	=
Year 4	=
Year 5	=
$a	=
$b	=
$c	=
$d	=
$e	=
$f	=
$g	=
$h	=
$i	=
$j	=
$k	=
$l	=
$m	=
$n	=
$o	=

$p =
$q =
A% =
B% =
State =

Dear :

This is in response to Taxpayer's request for a ruling requesting permission to use an alternative method of basis recovery under § 15a.453-1(c)(7)(ii) of the Temporary Regulations under the Installment Sales Revision Act of 1980 to report payments from a contingent payment sale. In accordance with § 15a.453-1(c)(7)(ii), Taxpayer filed its ruling request prior to the due date (including extensions) of its Year 1 tax return.

FACTS AND REPRESENTATIONS

Taxpayer represents the following:

Taxpayer is a trust that uses a cash method of accounting for federal income tax purposes and files tax returns on a calendar year basis.

Taxpayer and other affiliated entities collectively owned A% of the issued and outstanding stock of Company. Company is an S corporation that was incorporated in State. Company is in the commodity products manufacturing business.

On Date 1, Taxpayer and other Company shareholders sold all their Company stock for an initial amount of $a, payable at closing in Year 1, plus four uncapped earnout payments payable on the successive anniversaries of Date 1 in Year 2, Year 3, Year 4, and Year 5.

Under the terms of the purchase agreement, the earnout payment amounts are B% of the Company’s earnings before interest, taxes, depreciation, and amortization (EBITDA) in excess of $b for payments payable in Year 2 and Year 3, and B% of the Company’s EBITDA in excess of $c for payments payable in Year 4 and Year 5.

As allocable to Taxpayer, Taxpayer anticipates receiving little, if any, earnout payments in Year 2 and Year 3 based upon Company’s historical EBITDA and the estimates of future earnings it prepared. Taxpayer estimates that the amounts of its earnout payments will be:

Year 2	Year 3	Year 4	Year 5
$d	$e	$f	$g

In total, Taxpayer estimates that the total purchase price it will receive in exchange for Taxpayer's stock in Company will be $h, Taxpayer's allocable share of the $a amount received in Year 1, $q, plus the sum of Taxpayer's estimated payouts, $d through $g. Further, Taxpayer's aggregate tax basis in its stock at the time of sale was $i.

Taxpayer requests a ruling that it be permitted to use an alternative method of basis recovery (as described below) under § 15A.453-1(c)(7)(ii) to report payments from the contingent payment sale of Taxpayer's stock in Company, because the normal basis recovery rule set forth in § 15A.453-1(c)(3)(i) will substantially and inappropriately defer recovery of basis based on Company's historical EBITDA and the estimates of future earnings. Pursuant to § 15A.453-1(c)(7)(ii), Taxpayer asserts that its proposed alternative method of basis recovery is a reasonable method of ratably recovering basis, and that over time Taxpayer likely will recover basis at a rate at least twice as fast as the rate at which basis would have been recovered under the otherwise applicable normal basis recovery rules.

LAW AND ANALYSIS

Section 453(a) of the Internal Revenue Code provides as a general rule that income from an installment sale shall be taken into account under the installment method for federal income tax purposes. Section 453(b)(1) defines the term "installment sale" to mean a disposition of property if at least one payment is to be received after the close of the taxable year in which the disposition occurs. The term "installment method" is defined in section 453(c) as a method under which the income recognized for any taxable year from a disposition is that proportion of the payments received in that year which the gross profit (realized or to be realized when the payment is completed) bears to the total contract price.

Section 453(j)(2) provides that the Secretary of the Treasury shall prescribe regulations providing for ratable basis recovery in transaction where the gross profit or the total contract price (or both) cannot be readily ascertained.

Section 15A.453-1(c)(1) of the Temporary Income Tax Regulations defines a "contingent payment sale" as a sale or other disposition of property in which the aggregate selling price cannot be determined by the close of the taxable year in which such sale or other disposition occurs. Unless a taxpayer makes an election under § 15A.453-1(d)(3), contingent payment sales are to be reported on the installment method.

Section 15A.453-1(c)(2)(i)(A) provides that a contingent payment sale will be treated as having a stated maximum selling price if, under the terms of the agreement, the maximum amount of sales proceeds that may be received by the taxpayer can be determined at the end of the taxable year in which the sale or other disposition occurs. The stated maximum selling price shall be determined by assuming that all of the

contingencies contemplated by the agreement are met or otherwise resolved in a manner that will maximize the selling price and accelerate payments to the earliest date or dates permitted under the agreement.

Section 15A.453-1(c)(3)(i) provides that when a stated maximum selling price cannot be determined as of the close of the taxable year in which the sale or other disposition occurs, but the maximum period over which payments may be received under the contingent sales price agreement is fixed, the taxpayer's basis (inclusive of selling expenses) shall be allocated to the taxable years in which payment may be received under the agreement in equal annual increments.

Additionally, § 15A.453-1(c)(3)(i) provides generally that if in any taxable year no payment is received or the payment received is less than the basis allocated to that year, no loss shall be allowed unless the taxable year is the final payment year under the agreement. When no loss is allowed, the unrecovered portion of basis allocated to the taxable year is carried forward to the next succeeding taxable year.

Section 15A.453-1(c)(3)(i) further provides that a special rule under § 15A.453-1(c)(7) will apply if application of the foregoing general rules would substantially and inappropriately accelerate or defer recovery of the taxpayer's basis in a particular case.

Section 15A.453-1(c)(7)(ii) provides that a taxpayer may use an alternative method of basis recovery if the taxpayer is able to demonstrate prior to the due date of the return, including extensions for the taxable year on which the first payment is received, that application of the normal basis recovery rule will substantially and inappropriately defer recovery of basis. To demonstrate that application of the normal basis recovery rule will substantially and inappropriately defer recovery of basis, the taxpayer must show (A) that the alternative method is a reasonable method of ratably recovering basis and (B) the taxpayer likely will recover basis at a rate twice as fast as the rate at which basis would have been recovered under the otherwise applicable normal basis recovery rule.

Section 15a.453-1(c)(7)(ii) further provides that the taxpayer must file the request for a ruling prior to the due date for the return including extensions. In demonstrating that application of the normal basis recovery rule would substantially and inappropriately defer recovery of the taxpayer's basis, the taxpayer in appropriate circumstances may rely upon contemporaneous or immediate past relevant sales, profit, or other factual data that are subject to verification. The taxpayer ordinarily is not permitted to rely upon projections of future productivity, receipts, profits, or the like. However, in special circumstances a reasonable projection may be acceptable based upon a specific event that has already occurred.

Taxpayer had an installment sale for a fixed period, but for a contingent sales price. Accordingly, Taxpayer is subject to the rules of § 15A.453-1(c)(3)(i). Based on

Company’s historical EBITDA and the estimates of future earnings, Taxpayer expects to receive the following payments in the five-year period:

Year 1	Year 2	Year 3	Year 4	Year 5
$q	$d	$e	$f	$g

Because the stated maximum selling price was not determinable as of the close of Year 1, but the maximum period over which the payments may be received under the contingent purchase agreement is fixed (i.e., five years), under the normal basis recovery rule, Taxpayer's basis should be allocated to the taxable years in which payment may be received under the purchase agreement in equal annual increments. The application of this rule is illustrated in Scenario 1 below:

	Year 1	Year 2	Year 3	Year 4	Year 5
Allocated Basis	$j	$j	$j	$j	$j

Because no loss shall be allowed unless the taxable year is the final payment year under the agreement, $k of basis (including the unrecovered portion of the basis that gets carried forward to the next succeeding taxable year) would be allocated to Year 5.

As is demonstrated in Scenario 1 above, application of the normal basis recovery rule set forth in § 15A.453-1(c)(3)(i), based on Company’s historical EBITDA and the estimates of future earnings, would substantially and inappropriately defer recovery of basis, resulting in a disproportionately large gain in Year 1 and a disproportionately large loss in Year 5.

Under Taxpayer's proposed alternative method, Taxpayer will allocate the ratio of basis to each installment payment as that installment payment bears to the estimated amount of aggregate payments to be received by Taxpayer during the 5-year term of the installment obligation. Based on the projected earnout payments set out above, Taxpayer’s proposed alternative basis recovery is reflected in Scenario 2, below:

	Year 1	Year 2	Year 3	Year 4	Year 5
Allocated Basis	$l	$m	$n	$o	$p

As illustrated above, Taxpayer's proposed alternative basis recovery method is a reasonable method of ratably recovering basis, and Taxpayer will recover basis at a rate twice as fast as the rate at which basis would have been recovered under the normal basis recovery rule. Based on the information provided by the Taxpayer, the proposed alternative basis recovery methodology thus satisfies the requirements of § 15A.453-1(c)(7)(ii).

CONCLUSION

Based on the information provided and the representations made, we conclude that Taxpayer's proposed alternative basis recovery method is a reasonable method of ratably recovering basis, and that the use of the proposed alternative method of basis recovery will result in basis recovery at a rate more than twice as fast as the rate at which basis would be recovered under the normal basis recovery rules. Accordingly, the Taxpayer's use of the proposed alternative method of basis recovery is approved.

Except as expressly provided herein, no opinion is expressed or implied concerning the tax consequences of any aspect of any transaction or item discussed or referenced in this letter.

The rulings contained in this letter are based upon information and representations submitted by Taxpayer and accompanied by a penalty of perjury statement executed by an appropriate party. While this office has not verified any of the material submitted in support of the request for rulings, it is subject to verification on examination.

A copy of this letter must be attached to any income tax return to which it is relevant. Alternatively, taxpayers filing their returns electronically may satisfy this requirement by attaching a statement to their return that provides the date and control number of the letter ruling.

This ruling is directed only to the taxpayer requesting it. Section 6110(k)(3) of the Code provides that it may not be used or cited as precedent.

In accordance with the Power of Attorney on file with this office, a copy of this letter is being sent to your authorized representative.

Sincerely,

Amy J. Pfalzgraf
Chief, Branch 5
(Income Tax & Accounting)

cc: