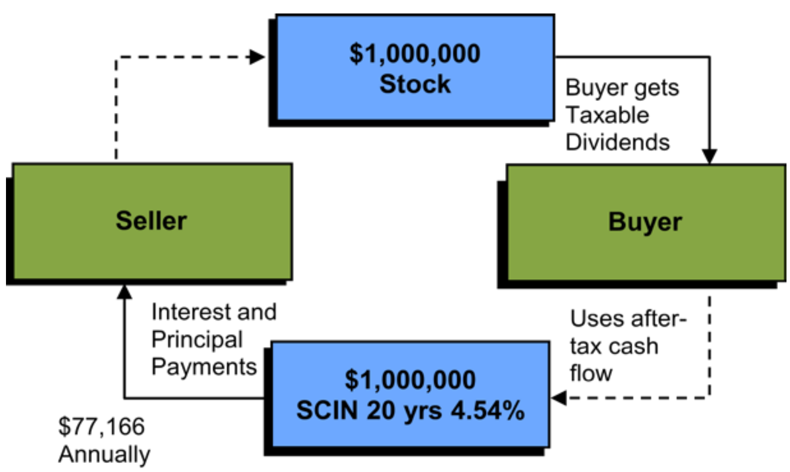
How does it work?

Self-Cancelling Installment Note (SCIN)

This technique is similar to an installment sale, but with a twist in how the note is structured.

- You sell stock to a buyer – usually a child or other family member.
- Buyer executes a note, which includes a "self-cancelling" feature – that is, the obligation to make payments ends in event of your death.
- Buyer receives cash flow from business and pays taxes on business income.
- Buyer uses after-tax cash flow from the business to make note payments to you.
- Seller will have capital gain plus interest income.



This example is hypothetical and is provided for informational purposes only.

This strategy could fit if:

- You want to sell the business to children or other family members.
- You have confidence in the buyer's ability to run the company profitably.
- The buyer does not have sufficient resources to buy the company outright or obtain bank or other financing.
- The business will have sufficient cash flow so that the buyer can pay taxes, make note payments to you, and still make a reasonable return on the business for himself or herself.
- You are willing to cancel the note if you die before the end of a stated term. (The advantage is that your taxable estate is reduced because the note has no value in the event of your death.)
- This works best (for estate tax purposes) if you die before the note is fully paid. It may be something to consider for an individual in poor health.

This strategy may not fit if:

- You have doubts about the buyer's ability to run the company profitably.
- The business' cash flow is insufficient or varies greatly from year to year.
- You want to distribute your estate equally among children, some of whom are not involved in the business. (When a SCIN is used, heirs other than the buyer get no value from the note.)
- You do not need to be concerned about federal estate tax.

What else should you consider?

- The biggest attraction of this strategy is for estate tax planning – you can transfer the business (which is worth a lot in your taxable estate) for the note (which, because of the cancellation feature, will never have an unpaid balance to be included in your taxable estate).
- Would you be better off selling to a buyer with greater financial resources?
- A "bargain sale" to a family member creates a gift, with possible gift tax consequences. You must sell at fair market value, and use market interest rates, in order to avoid gift tax consequences.
- You must sell at a premium price or with an interest rate premium to fairly reflect the risk that the note may not be paid in full. The "trade-off" for getting estate tax benefits is the buyer having to make larger payments.
- Buyer's ability to deduct interest is subject to investment interest deduction limits.
- The sale must comply with IRS rules to get installment sale treatment – otherwise gain will not be deferred.
- Capital gain on the sale is recognized over the term of the note, in a similar manner to an installment sale. However, if you die during the term of the SCIN, any remaining capital gain must be included in your final individual income tax return. The related capital gain tax will be paid by your estate.

How is this strategy implemented?

- This is an advanced technique. Work closely with your attorney and CPA and be sure you understand all of the income tax, gift tax and estate tax implications.
- Work with your CPA and other qualified professionals to value your business.
- Your attorney can prepare necessary documentation for the sale, security agreements, etc.
- As part of the sale, consider requiring life insurance on the buyer to secure payment of the note, in the event the buyer dies before you.
- Your Wells Fargo Advisors financial advisor may be able to offer personal financial planning services* through an approved Wells Fargo Advisors program. Such a plan may help you evaluate the impact that note payments and tax obligations will have on your overall financial picture. Talk to your Financial Advisor for more information.

* Financial planning services offered through our High Net Worth Planning team for those with a minimum $5 million net worth.