Executive Summary
Monetized Installment Sale Transactions

Overview

An owner of highly appreciated assets can sell them and defer 100% of the capital gains tax for up to 30 years while receiving up to 95% of the value in cash.

These appreciated assets can include real estate, mineral rights, water rights, privately held stock, partnership interests, etc.

The transaction allows a seller to:

- Sell the asset
- Walk away from escrow with no immediate capital gains taxes due
- Defer the taxes for 30 years
- Receive tax free 95% of the sale proceeds in cash in the form of a loan

Slim Ventures LLC offers to purchase the appreciated assets in exchange for an installment note. In addition, the owner is offered, but is not required to accept, a limited-recourse “monetization loan” from a third-party lender introduced by Slim Ventures LLC.

Slim Ventures LLC will immediately re-sell the asset to the ultimate buyer, who otherwise could have purchased the asset directly from the owner who sells to Slim Ventures LLC The closing on the Monetized Installment Sale transaction and the closing on the resale will occur simultaneously, typically where the closing would have occurred if there had been no Monetized Installment Sale transaction.

If the seller enters into the monetization loan, it will be funded “up front”, i.e. the seller receives the loan proceeds promptly after the closing on the sale of the asset. The entire transaction occurs within a third party escrow.

Benefits

The transactions may achieve the following:

1. An installment sale of the asset, with the capital-gains tax deferred for as long as 30 years, with no net tax cost to the seller during that time;

2. Near immediate availability (i.e. within days) of a non-taxable monetization loan for the seller, with the entire repayment of the monetization loan funded by Slim Ventures LLC’s installment payments to the seller, at no net cost to the seller for interest or principal payments;

3. Ability for the seller to invest the loan proceeds at the seller’s full discretion;

4. No risk that the seller will have to use any funds to repay the loan other than the money which Slim Ventures LLC pays to the seller pursuant to the monetized installment sale contract;

5. Administrative ease on the installments of the Monetized Installment Sale and payments on the loan managed automatically by an escrow company and reported annually to the parties and the Internal Revenue Service;

7. Minimized credit risk, default risk and performance risk.

How It Works

1. Seller sells an appreciated asset at fair market value to a dealer for an interest only, non-amortizing long term installment note (which Is tax deferred under IRC 453).

2. The dealer sells the asset to the end buyer at fair market value.

3. The seller obtains a loan from a third party lender equal to 95% of the sales price.

4. The seller and the dealer continue to make loan payments on their respective notes. The dealer's installment payments fund seller's payments on the limited recourse loan.

5. While the seller defers the tax on the sale, inflation during the contract term acts in seller's favor, allowing them to pay the future tax bill tax in depreciated dollars.

6. In the meantime, the seller uses the proceeds to invest or consume as he would on any general purpose loan.

Other Companies that Have Done This

Several public companies have engaged in this transaction, in amounts that have ranged from $22 million to over $4.5 billion. These transactions have been undertaken with full assistance from the companies' teams of auditors at Big 4 accounting firms, investment banks, large Wall Street law firms, and in house attorneys and have been fully disclosed in their SEC financial statements.[1]

These companies and their transactions have include:

1. The $43.25 Million Monetized Installment Sale by GREIF, Inc.
2. The $617 Million Monetized Installment Sale by Kimberly Clark.
3. The $4.8 Billion Monetized Installment Sale by International Paper.
4. The $350 Million Monetized Installment Sale by Plum Creek.
5. The $1.47 Billion Monetized Installment Sale by OfficeMax.
6. The $774 Million Monetized Installment Sale by Meadwestvaco.
7. The $183 Million Monetized Installment Sale by the St. Joe Company.
8. The $22.5 Million Monetized Installment Sale by Rayonier.
9. The $403 Million Monetized Installment Sale by Louisiana Paper.
10. The $37.9 Million Monetized Installment Sale by Glatfelter.

Slim Ventures focuses on the middle market for these transactions.

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[1] See GREIF Inc. at http://www.investquest.com/iq/g/gef/fin/8k/gef8k060605.htm;
See Kimberly Clark at http://files.shareholder.com/downloads/KMB/4330473318x0xS55785-03-1/55785/filing.pdf at p. 126;
See International Paper at https://www.sec.gov/Archives/edgar/data/51434/000119312511100407/filename1.htm;
See Plum Creek at investor.weyerhaeuser.com/download/PCL+Q2+2000+10-Q.pdf
See St. Joe's at http://ir.joe.com/secfiling.cfm?filingID=745308-14-22;
See MeadWestvaco at http://phx.corporate-ir.net/External.File?item=UGFyZW50SUQ9NTM3NjAyfENoaWxkSUQ9MjI2NTQwfFR5cGU9MQ==&t=1; and
See OfficeMax at http://investor.officedepot.com/phoenix.zhtml?c=94746&p=irol-faq
See Rayonier at https://www.google.com/url?sa=t&source=web&rct=j&url=https://www.rayonier.com/Documents/2016_Annual_Report_RYN.aspx&ved=0ahUKEwjk6Ka1m4HUAhUT8GMKHQbhCucQFggfMAA&usg=AFQjCNE0YOGQCxnXiXBZf0D_-QwvorYcog&sig2=b5kdrLLVtnl-YlnQ_rxGNg
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See Glatfelter at http://www.glatfelter.com/about_us/news_events/press_release.aspx?PRID=10

Tax and Non-tax Considerations

The core tax issues surrounding this strategy consist in:

1. The tax deferral of installment sales.
2. The tax free nature of loans.
3. Other 'judicial doctrines' related to 'substance over form' and 'business purpose'.

The IRS and the courts have discussed these issues in numerous instances. In a recent General Counsel Memorandum, the IRS discussed, and declined to challenge, a Monetized Installment Sale that one of the public companies referenced above had engaged in. [2]

Section 453 of the Internal Revenue Code provides that when a taxpayer sells a capital asset and does not receive full payment of the selling price in the year of sale, the transaction is an installment sale and the seller owes the tax to the extent (and when) the seller receives the principal.

In the case of an owner's sale to Slim Ventures LLC, the capital-gains tax may be entirely deferred for as long as 30 years, because Slim Ventures LLC's installment contracts are typically for that period of time with no payment of principal until the end of that time.

When installment reporting was adopted in the first Internal Revenue Code in 1913, there was no widely available system of institutional finance for the buying and selling of farms, homes and businesses, and Congress realized that installment sales were necessary to the functioning of the marketplace and the economy. Currently, it is estimated that 80% of business sales come with some form of buyer financing; in the residential context, some hundreds of thousands of properties are also financed per year. These transactions are an important part of the economy and contribute to the soundness of the financial system.

Congressional Intent

Congress implicitly recognized monetized installment sales when in 1980 it codified, in Section 453A, provisions allowing for monetization loans taken out at the same time as installment sales occur.

Congress further recognized that if all sales were treated for tax purposes as if they were cash sales, the effect on the economy would be adverse.

> Example: John and Mary own real estate on which, many years ago, they built a modest building in which they have operated a retail business ever since. They want to sell the business and the real estate and retire, but the tax cost of doing so, if they were to sell for cash, would mean that their after-tax resources for retirement would be insufficient. Of course, they regularly pay some income taxes because of the business, but that amount is modest. Because of the tax cost of selling, they feel trapped, and they continue their labors.
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> Then John and Mary are approached by Sam the Developer, who knows that if he can purchase the property and business from John and Mary, Sam the Developer will close their business, tear down their building and replace it with a much bigger and grander, high-rise retail and residential structure. If they would sell to him, revenues from property taxes and income taxes related to the new structure and the business and personal tenants therein would increase ten, twenty or thirty times, or more. The value of the property would rise commensurately, so that when it would later be sold again the capital-gains tax would be many multiples of what it would be if John and Mary were to sell now. And, the number of taxable transactions would rise, too.

[2] See https://www.irs.gov/pub/irs-lafa/20123401F.pdf

> The answer? John and Mary sell on a tax-deferred installment contract such as in an Monetized Installment Sale transaction, they defer their tax, they have sufficient funds for retirement, and the tax revenues for city, county, state and federal governments rise—all because of the availability of tax deferral for John and Mary because of their installment sale.

That outcome illustrates why installment reporting was never intended to be available only when a cash sale was not available. Installment reporting was intended to be available when a cash sale was not desirable, just as much as when a cash sale was not available; Congress wanted sellers to be able to choose freely the terms and conditions of sale, so that transactions would occur freely and the economy and tax revenues would grow commensurately.

We are happy to discuss additional legal aspects of the transaction, including legal requirements for a valid loan as well as judicial doctrines such as economic substance, business purpose and the step transaction doctrine, which can be satisfied in this transaction.

Process

As a dealer in capital assets, Slim Ventures LLC purchases the asset—it can be virtually any capital asset, whether it's a business, investment or personal one—from the owner-seller, on an unsecured installment contract which calls for payments of interest only by Slim Ventures LLC to the seller for 30 years, followed by payment of the entire purchase price at the end of the term.

Most often, the seller has already found an ultimate buyer for the asset before Slim Ventures LLC becomes involved. Most often, the ultimate buyer is prepared to pay cash, or a considerable portion of the price in cash, and the seller prefers to defer the tax on the cash proceeds. With that in mind, the seller brings Slim Ventures LLC into the deal, to be an intermediate purchaser from the seller. The purchase price in the installment contract in an Monetized Installment Sale transaction is typically equal to the resale price, but with provision for a discount at the end of the 30 years if Slim Ventures LLC fully performs.

At the same time as the purchase, Slim Ventures LLC re-sells the asset to the final buyer to whom the seller had planned to sell directly. Slim Ventures LLC receives and retains the sale proceeds which the final buyer pays. (That's why Slim Ventures LLC doesn't charge a fee to the seller; Slim Ventures LLC retains all of the resale proceeds, so it wouldn't make sense to charge a fee on top of that.)

Although there are two sale transactions—the installment sale to Slim Ventures LLC and the resale to the final buyer—there is only one transfer of title or ownership; the deed or other instrument of transfer will pass directly (in a "directed" transfer) from Slim Ventures LLC's seller to Slim Ventures LLC's buyer, without going through Slim Ventures LLC Therefore, the final buyer will receive the same instrument of transfer from the same party with the same representations and warranties, on the same day and for the same price as would have been the case if Slim Ventures LLC had not been involved.

Both the installment sale to Slim Ventures LLC and its resale to the final buyer are closed simultaneously, pursuant to mutually agreed closing instructions provided to the closing agent.

The Monetization Loan

At the same time and if the seller so desires, a third-party lender which is unrelated to Slim Ventures LLC is willing to lend to Slim Ventures LLC's seller (or, in the case of an entity which is the seller, the owner or owners of the entity) an amount of cash that is equal to a specified high percentage of the cash paid by the final buyer. Slim Ventures LLC's monthly interest payments on the installment contract will typically equal the seller's loan-interest payments, although the interest rate on the monetization loan will be higher, because the installment purchase price will be higher than the loan amount. The final due dates on the installment contract and the monetization loan will typically be the same, and the principal amount paid on the installment contract at the end will equal or exceed the amount that the seller then owes on the loan.

The seller/borrower may then use those monetization loan proceeds—which should be non-taxable as are any other loan proceeds—for any business or investment purpose which the seller/borrower prefers, including to pay debt on the asset being sold or to pay other business debt. The seller/borrower is not restricted in the use of the proceeds of the investment.

The lender does not receive a lien on the installment contract, on the asset that was sold, on the installment payments made by Slim Ventures LLC, or on the investments made by the seller/borrower.

Unsecured Loans. The lender does not require that the seller/borrower provide any security, because the lender is looking to Slim Ventures LLC as the source of funds for the seller/borrower to repay the loan. The lender does not require that Slim Ventures LLC provide security, because Slim Ventures LLC agrees to invest the resale proceeds in accord with the lender's investment criteria.

30 Year Loans. The lender accepts a 30 year loan, so that Slim Ventures LLC can invest the resale proceeds for 30 years. History shows that when money can be invested for 30 years the likelihood is high that there will be more than sufficient funds available at the end for Slim Ventures LLC to pay the seller in full on the installment contract, so that the lender will be paid in full on the monetization loan.

Because of the Monetized Installment Sale installment-sale transaction and the monetization loan, you, too, will have the opportunity to pursue long-term investments and long-term returns—and that is where your net cash flow will be after the Monetized Installment Sale transaction closes will occur (because all of your cash flow from the Monetized Installment Sale transaction will go to repay the monetization loan. Slim Ventures LLC is not a party to the loan; the monetization loan is a transaction solely between the seller/borrower and the lender.

Long Term Escrow Accounts. With a Monetized Installment Sales, three long-term escrows are established, the "Installment Escrow", the "Funding Escrow", and the "Loan Escrow".

Each month, the long-term escrow company will automatically take an installment-interest payment from Slim Ventures LLC's funds, place that money in the Installment Escrow, and credit Slim Ventures LLC with having made an installment-interest payment. Slim Ventures LLC's connection with that money thereupon ends, and the money then automatically transfers to the Funding Escrow, where the money belongs solely to the seller. The money then automatically transfers to the Loan Escrow, and the seller/borrower is credited with having made a loan interest payment. When the principal is paid at maturity, the same process occurs.

This is an automatic process, just as would occur if a borrower were to arrange for incoming payments to be automatically deposited in the borrower's bank and for outgoing payments to be automatically withdrawn from the borrower's account in that bank.

Every January, the long-term escrow company will provide accountings of moneys received and paid, will perform the required tax reporting of the interest payments, and will bill the seller for the annual escrow fee (a modest sum).

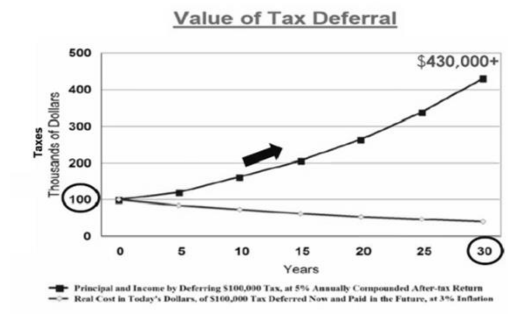
Recapture Tax

If recapture tax is a considerable factor in a given situation, the Monetized Installment Sale transaction may be revised in one or more respects, so that all or part of the recapture tax may be deferred, much as the capital gains tax is deferred.

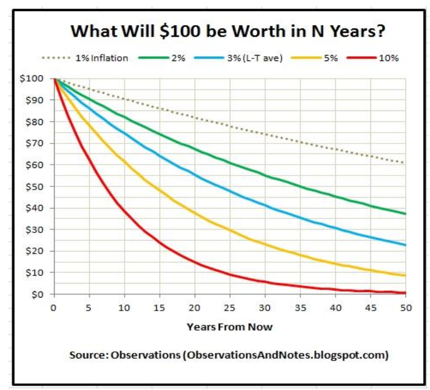
End of the Term - Paying the Tax

The primary value of this strategy is that it:

1. Allows investors to re-invest at 95% on a tax deferred basis instead of at 75% by paying the tax;



2. Allows investors to pay with future (inflation eroded) dollars.



At the end of the installment contract term, capital gains tax will then be due, at whatever the rate is at that time for capital gains.

Our Role as a Dealer - Disclaimer

As a principal, Slim Ventures LLC does not act in the capacity of a broker, sales representative, investment adviser, or tax or legal adviser; does not sell or recommend any security; and does not accept any transaction fee or payment for transaction services. Circumstances may affect tax and legal outcomes. Each transaction is different and unique to each participant. Neither Slim Ventures LLC nor any of its officers or employees may or does provide tax, legal or investment advice. Nothing herein is intended to be, or may be taken to be, tax, legal or investment advice. Interested parties should consult their legal, tax and investment advisers before participating in any transaction.

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