**8824. What are self-cancelling installment notes (SCINs)? How can SCINs be used in family business succession planning?**

Under a self-cancelling installment note (SCIN), the selling business owner agrees to sell property to a buyer (often, the owner’s children or other beneficiaries) in exchange for an installment note that expires either when the seller receives the maximum price for the property; or, upon the occurrence of a cancellation event, such as the seller’s death. This is a form of installment sale transaction (see Q 8819). It allows the seller to secure the purchase for the business interest, while still retaining the ability to defer part of the gain.[[1]](#footnote-1) In turn, the buyer can claim an interest deduction with respect to the payments made.[[2]](#footnote-2)

Under a SCIN, if the cancelling event is the selling business owner’s death, all remaining payments under the note are canceled upon the seller’s death, similar to a private annuity. Typically, the purchaser pays a premium for this cancellation feature in the form of either a higher interest rate or a larger purchase price. Gain under a SCIN is recognized by the selling business owner as payments are received. However, when the seller dies, any unrecognized (i.e., cancelled) gain at the seller’s death under the SCIN is reportable either on the seller’s final IRS form 1040 or on the seller’s estate’s IRS form 1041.

In order for the IRS to recognize the SCIN, the term of the note must be shorter than the seller’s life expectancy at the time of the sale, based on IRS mortality tables.[[3]](#footnote-3) The advantage of using a SCIN, as opposed to other installment sale methods or an intentionally defective grantor trust (see Q 8823.02), is that the unpaid balance is not included in the seller’s estate.[[4]](#footnote-4)

However, if no payments are made under the SCIN before the death of the seller, the IRS may argue that the value of the SCIN is zero and should only reduce the value of the note.[[5]](#footnote-5) A SCIN signed by a family member is presumed to be a gift rather than a bona fide transaction.[[6]](#footnote-6)

SCINs are particularly useful if the seller has a relatively short remaining life expectancy because if the selling owner outlives the term of the note, the estate tax benefit will have been lost and the owner may actually have incurred additional expenses in the form of higher income taxes or gift tax liability.

1. . IRC Sec. 453(f)(3). [↑](#footnote-ref-1)
2. . IRC Sec. 163(d)(5), Treas. Reg. §1.163-8T(b)(3) (investment interest). [↑](#footnote-ref-2)
3. . GCM 39503. [↑](#footnote-ref-3)
4. . See *Frane vs. Comm.,* 998 F.2d 567 (1993), *Moss v. Comm.*, 74 TC 1239 (1980). [↑](#footnote-ref-4)
5. . See *Estate of Costanza v. Comm.,* 320 F.3d 595 (2003), *Robert Dallas*, TC Memo 2006-212. [↑](#footnote-ref-5)
6. . *Estate of Costanza v. Comm.,* 320 F 3d 595 (2003); *Estate of Labombarde v.* *Comm.*, 58 TC 745 (1972). [↑](#footnote-ref-6)