



Should I Do A 1031 Exchange?

To determine if a 1031 Exchange makes sense for your current situation, utilize these calculations to determine your taxable gain.

1. CALCULATE NET ADJUSTED BASIS

| | EXAMPLE | | YOUR FIGURES |
|--|---------------------------|----------|--------------|
| Original Purchase Price of Relinquished Property (Basis) | \$200,000 | | |
| PLUS Capital Improvements | + \$20,000 | + | |
| MINUS Depreciation | - \$50,000 | - | |
| EQUALS Net Adjusted Basis | = \$170,000 | = | |

2. CALCULATE CAPITAL GAINS

| | | | |
|--|---------------------------|----------|--|
| Today's Gross Sales Price | \$500,000 | | |
| MINUS Cost of Sale (including commissions, fees, etc.) | - \$30,000 | - | |
| MINUS Net Adjusted Basis (calculated above) | - \$170,000 | - | |
| EQUALS Capital Gains | = \$300,000 | = | |

3. CALCULATE TAXES DUE

| | | | |
|--|---------------------------|----------|--|
| Recapture of Depreciation (Depreciation Value x 25%) | \$12,500 | | |
| Federal and State Capital Gain Rate (Capital Gains x 27%*) | - \$81,000 | - | |
| Net Investment Income Tax SF/HE (Capital Gains x 3.8%) | - \$11,400 | - | |
| TOTAL TAX DUE | = \$104,900 | = | |



Sale VS Exchange

Utilizing the figures in our example, below illustrates the difference in the Proceeds through a traditional real estate sale compared to the proceeds available through a 1031 Exchange.

SALE

| | |
|-------------------------------|--------------------|
| SALE PRICE | \$500,000 |
| EXPENSES | - \$30,000 |
| ADJUSTED BASIS | - \$170,000 |
| TAXABLE GAIN | \$300,000 |
| NET AFTER TAX PROCEEDS | \$365,100 |

EXCHANGE

| | |
|---|-------------------|
| SALE PRICE | \$500,000 |
| EXPENSES | - \$30,000 |
| = | |
| GROSS PROCEEDS (1031=TAX DEFFERAL) | \$470,000 |