



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 Adjust Basis	= \$170,000	=	

2. CALCULATE CAPITAL GAINS

Today's Gross Sales Price	\$500,000		
MINUS Cost of Sale (including commissions, fees, etc.)	- \$170,000	-	
MINUS Net Adjust Basis (calculated above)	- \$30,000	-	
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

