▶ DEFER CAPITAL GAIN TAXES ON THE SALE OF BUSINESS OR INVESTMENT REAL ESTATE

▶ KEEP YOUR MONEY WORKING FOR YOU

1031 Exchange *focus*

SECTION 1031 OF THE INTERNAL REVENUE CODE IS ONE OF THE GREATEST WEALTH BUILDING TOOLS AVAILABLE TO INVESTORS.

Internal Revenue Code Section 1031 allows investors to defer the payment of capital gains taxes when selling an investment property and exchanging into other like-kind investment property.

Calculating Capital Gains Taxes

Many property owners are familiar with the "Terrible T's" in real estate: termites, tenants and trash. Often the "Terrible T's" become so burdensome that investors decide they want out of real estate altogether. At that point however, investors become all too familiar with another "Terrible T" – Taxes!

In the state of California, property owners who decide to sell an investment property are subject to the following taxes on gains:

- 9.55% state capital gains tax
- 15% federal capital gains tax
- 25% depreciation recapture tax

Calculating the tax bill upon the sale of a property isn't as hard as one might think, but it does require that you have a firm understanding of how much gain is in the property. The first thing to understand is how to calculate the Adjusted Basis:

Formula	Example
Net Purchase Price	$500,000
(Depreciation)	(100,000)
+Capital Improvements	+25,000
Adjusted Basis	$425,000

Once the Adjusted Basis is figured, calculating the Gain is easy:

Formula	Example
Net Sales Price	$1,000,000
(Adjusted Basis)	($425,000)
Gain	$575,000

With the gain calculated, tax computations are relatively simple:

Tax	Formula
15% Capital Gain	15% * (Gain – Depreciation)
9.55% State Tax	9.55% * Gain
25% Depreciation Recapture Tax	25% * Depreciation

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