



**SELL**



**EXCHANGE**

# 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

Original Purchase Price of Relinquished Property (Basis)  
 PLUS Capital Improvements  
 MINUS Depreciation  
 EQUALS Net Adjusted Basis

| EXAMPLE                   | YOUR FIGURES |
|---------------------------|--------------|
| <b>\$200,000</b>          |              |
| <b>+</b> <b>20,000</b>    | <b>+</b>     |
| <b>-</b> <b>50,000</b>    | <b>-</b>     |
| <b>=</b> <b>\$170,000</b> | <b>=</b>     |

## 2. CALCULATE CAPITAL GAINS

Today's Gross Sales Price  
 MINUS Cost of Sale (including commissions, fees, etc.)  
 MINUS Net Adjusted Basis (calculated above)  
 EQUALS Capital Gains

|                           |          |
|---------------------------|----------|
| <b>\$500,000</b>          |          |
| <b>-</b> <b>30,000</b>    | <b>-</b> |
| <b>-</b> <b>170,000</b>   | <b>-</b> |
| <b>=</b> <b>\$300,000</b> | <b>=</b> |

## 3. CALCULATE TAXES DUE

Recapture of Depreciation (Depreciation Value x 25%)  
 Federal and State Capital Gain Rate (Capital Gains x 27%\*)  
 Net Investment Income Tax SF/HE (Capital Gains x 3.8%)  
 TOTAL TAX DUE

|                           |          |
|---------------------------|----------|
| <b>\$12,500</b>           |          |
| <b>-</b> <b>81,000</b>    | <b>-</b> |
| <b>-</b> <b>11,400</b>    | <b>-</b> |
| <b>=</b> <b>\$104,900</b> | <b>=</b> |



**Advocus®**

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# Sale vs. Exchange

Utilizing the figures in our example, this table illustrates the difference between the proceeds of a traditional real estate sale and a 1031 Exchange.

## SALE

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

## EXCHANGE

|   |                   |
|---|-------------------|
| <b>SALE PRICE</b>                           | <b>\$500,000</b>  |
| <b>EXPENSES</b>                             | <b>– \$30,000</b> |
|   |                   |
| <b>GROSS PROCEEDS (1031 = TAX DEFERRAL)</b> | <b>\$470,000</b>  |

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