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.

		EXAMPLE		YOUR FIGURES
1. CALCULATE NET ADJUSTED BASIS				
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 commisions, 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, this table illustrates the difference between the proceeds of a traditional real estate sale and a 1031 Exchange.

SALE

SALE PRICE	**$500,000**
EXPENSES	**– $30,000**
ADJUSTED BASIS	**– $170,000**
TAXABLE GAIN	**$300,000**
NET AFTER-TAX PROCEEEDS	**$365,100**

EXCHANGE

SALE PRICE	**$500,000**
EXPENSES	**– $30,000**
GROSS PROCEEDS (1031 = TAX DEFFERAL)	**$470,000**

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