

ESTIMATING THE CAPITAL GAIN TAX ON THE SALE OF INVESTMENT PROPERTY

An Exchanger/taxpayer should always consult with competent independent legal and/or tax advisors to determine the applicability of any IRC §1031 tax deferred exchange benefits. The gain, not the profit or equity, from the transfer of investment property is subject to the combination of federal and state capital gain taxes and federal taxes on the gain due to the depreciation taken on the property. Remember, it is possible to have little or no equity in the investment property being transferred and still owe taxes!

This formula is a guide to estimate the potential capital gain tax owed on the transfer of property:

1. First, calculate the Adjusted Basis:

	Original Purchase Price		\$ _____
Plus	Non-expensed Improvements	+	\$ _____
Equals		=	\$ _____
Minus	Depreciation Taken	-	\$ _____
Equals	Adjusted Basis	=	\$ _____

2. Second, use the Adjusted Basis to determine the Capital Gain Tax:

	Sales Price		\$ _____
Minus	Adjusted Basis	-	\$ _____
Equals		=	\$ _____
Minus	Transaction Costs	-	\$ _____
Equals	Total Gain on Sale	=	\$ _____
Times	State Capital Gain Tax Rate	x	\$ _____
Equals	State Capital Gain Tax	=	\$ _____ (A)
Times	Federal Capital Gain Tax on Gain Due to Appreciation	x	\$ _____
Equals	Tax on Appreciation	=	\$ _____ (B)
Times	Federal 25% Tax Rate on Gain Due to Depreciation	x	\$ _____
Equals	Tax on Depreciation Taken	=	\$ _____ (C)
Total of Taxes A + B + C Equals The Capital Gain Tax Exposure			= \$ _____ (*)

** This is the amount of tax that is deferred by doing an IRC §1031 tax deferred exchange.*