Estimating the §1031 Tax Deferral on the Sale of Investment Property

An Exchanger 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	Adjusted Sales Price	=	$__________	
Minus	Transaction Costs	–	$__________	
Equals	**Total Gain on Sale**	=	$__________	
Times	State Capital Gain Tax Rate	x	$__________	%
Equals	**State Capital Gain Tax**	=	$__________	**(A)**
	Gain Due to Appreciation	=	$__________	
Times	Federal Capital Gain Tax Rate on			
	Gain Due to Appreciation	x	$__________	%
Equals	**Tax on Gain Due to Appreciation**	=	$__________	**(B)**
	Gain Due to Depreciation Taken	=	$__________	
Times	Federal 25% Tax Rate on			
	Gain Due to Depreciation Taken	x	25%	
Equals	**Tax on Depreciation Taken**	=	$__________	**(C)**

Total of Taxes (A) + (B) + (C) = **$__________**
equals the approximate amount of tax that is deferred by doing an IRC §1031 tax deferred exchange.

NOTE: Neither the federal deduction for state taxes nor the additional 3.8% tax on net investment income is included in this calculation.