1031 Heartland EXCHANGE, LLC

CALCULATING CAPITAL GAINS TAX

Many people are unaware that selling an investment property is different than selling their primary residence. Upon the sale of a property, other than your primary residence, one may incur a tax liability in the form of capital gains tax. Capital gains tax is paid on the capital gain, not equity or profit. To calculate capital gain, simply subtract the adjusted basis from the net sale price. The net sales price is the gross sales price minus any standard transaction costs. In order to determine your adjusted basis you must first establish your original cost basis. Your original cost basis is usually the initial purchase price of the property. To the original cost basis add the cost of improvements made to the property. From this number subtract all depreciation taken since you bought the property, the remainder is your adjusted basis. Subtract your adjusted basis from your net sales price to figure the estimated capital gain on your property. Once you have figured out your capital gain, multiply the capital gain by the applicable state and federal capital gains rates to determine your estimated tax liability.

The following is an example of how to calculate capital gains tax on the sale of a property.

Property Owner:	Sam Seller		
Net Sales Price:	$500,000	Original Purchase Price:	$250,000
Improvements:	$ 50,000	Depreciation:	$100,000

Original Purchase Price:		$250,000
Plus	+	
Improvements		$ 50,000
Subtotal		$300,000
Minus	-	
Depreciation		$100,000
Equals		
Adjust Basis		**$200,000**

Net Sales Price		$500,000
Minus	-	
Adjusted Basis		$200,000
Equals		
Capital Gain		**$300,000**

Capital Gains		$300,000
Minus	-	
Depreciation		$100,000
Equals		
Capital Gain Taxed		$200,000
At Federal Rate		
Multiply	x	
Federal Rate		15%
Equals		
Tax		**$ 30,000**
Depreciation		$100,000
Multiply	x	
Depreciation Rate		25%
Equals		
Tax		**$ 25,000**
State Tax		**$ 14,000****
Federal Tax		$ 30,000
Depreciation		$ 25,000
State Tax	+	$ 14,000
Total Taxes Due		**$ 69,000**

Sam Seller is faced with a large capital gain tax liability. By engaging in a 1031 tax deferred exchange, our investor Sam Seller can defer paying $69,000 in taxes, and instead reinvest all of the sale proceeds into a new property.

To find out more about 1031 tax deferred real estate exchanges, call Stacy Johnson of Heartland Exchange, LLC at 218-824-6846.

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**This rate varies by state. The number used in the above example is for demonstration only. You must consult your accountant for an accurate state rate.
***This not intend be tax advice. Please consult your accountant or attorney.