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 Tax Rate	x		%
Equals	**State Tax**	=	$	**(A)**
From above	Depreciation Taken (straight-line)	=	$	
Times	Federal 25% Tax Rate on Gain Due to Depreciation Taken	x	25%	
Equals	**Tax on Gain Due to Depreciation**	=	$	**(B)**
From above	Total Gain on Sale		$	
Minus	Depreciation Taken (from above)	-	$	
Equals	Gain Due to Appreciation	=	$	
Times	Long Term Federal Capital Rate	x		%
Equals	**Tax on Gain Due to Appreciation**	=	$	**(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.

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