OLD REPUBLIC EXCHANGE

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How You Can Help Your Clients Save Taxes

If you are the escrow holder, closing attorney/agent, or real estate agent for a property that is not a principal residence, the seller will likely be subject to capital gain taxes. And, those taxes will be very significant especially if they have owned the property for a substantial period of time or if the property has experienced rapid appreciation. However, by exchanging into another property, rather than simply selling, IRC §1031 will allow your client to defer significant capital gain taxes and leave him with more money to invest in other property, as illustrated by the example below:

If client sells:		**If client exchanges:**	
Sales Price	$ 2,000,000	Sales Price	$ 2,000,000
Existing Loan	$ 750,000	Existing Loan	$ 750,000
Closing Costs	$ 140,000	Closing Costs	$ 140,000
Taxes Due	$ 302,500[1]	Taxes Due	$ -0-
	$ 807,500 cash left		$ 1,110,000 cash to reinvest

What types of property qualify for tax deferral under §1031?

Any property held by the taxpayer for productive use in a trade or business or held for investment (note that property held solely for appreciation qualifies) can qualify for tax deferral treatment under §1031.

How can you assist your client if you think their property might qualify for tax deferral treatment under §1031?

Assisting your client is very simple. Recommend that they discuss the possibility of doing a §1031 exchange with their tax advisor and refer them to a reputable Qualified Intermediary ("QI") to facilitate their exchange.

Remember—timing is everything. If your client would like to do an exchange, they must enter into an exchange agreement with a QI and assign their purchase and sale agreement to the QI on or before they close the sale.

1 Federal Taxes:
$250,000 of gain from depreciation taxed at 25% = $62,500
$860,000 of gain taxed at 15% = $129,000
$1,110,000 total gain
State Taxes (if applicable in your state):
$1,110,000 taxed at state rate – e.g. CA = 10% = $111,000
Total tax due on gain = $302,500 (i.e.$62,500 + $129,000 + $111,000

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