



ALASKA EXCHANGE CORPORATION

Professional Intermediary for IRC Section 1031 Tax Deferred Property Exchanges

"TAXES ARE PAID ON CAPITAL GAIN, NOT ON PROFIT OR EQUITY"

It is possible to have little or no equity and still owe taxes. Please see the attached worksheet to understand how your Capital Gain Tax is calculated. Capital gain is arrived at by subtracting the adjusted basis from the adjusted sales price. The adjusted sales price is the gross sales price minus ordinary or typical closing costs*. To calculate the adjusted basis, first determine the cost basis (typically the original purchase price). Then, add to this figure all improvements made to the property that were not expensed. Then, subtract all depreciation taken during the ownership period.

To calculate the estimated capital gain, subtract the adjusted basis from the sales price. Next, subtract the transaction costs (commissions, fees, etc.) to determine the capital gain. Then, multiply the capital gain by your tax rate and multiply the depreciation by 25%. In completion, add both the tax rate and the depreciation for total taxes due. Under current tax reform, sales dated from July 29, 1997 and later are taxed as follow:

<u>Holding period prior to sale</u>	<u>Sale July 29, 1997 and later</u>
up to 12 months (short-term gain)	Taxed at the ordinary income rate (ranges from 28 to 39%)
from 12 months or more (long-term gain)	Upper tax bracket 15% (gain lowered in 2003)

*CLOSING COSTS – some or all can be paid through close of escrow. However, there are tax consequences (boot) for paying certain items:

<u>Should Qualify</u>	<u>Might Qualify</u>	<u>Will Not Qualify</u>
Intermediary Fees	Appraisal Fee	Prorated Rents
Broker/Agent Commissions		Credits for Lease Deposits
Escrow Fees		Mortgage Interest
Title Insurance Premiums		Security Deposit Credits
Certain Legal Fees		Prorated Mortgage Interest
Documentary Transfer Taxes		Lender Fees
Recording & Notary Fees		Utilities
Hazardous Environmental Inspections		Prorated Hazard Insurance
Reasonable Property Inspections		Property Taxes

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CAPITAL GAIN WORKSHEET

Net Adjusted Basis:

Original Purchase Price:	\$ _____
Plus capital improvements (not expensed):	+\$ _____
Subtract depreciation:	- \$ _____ (D)
Net Adjusted Basis:	= \$ _____

Capital Gain Sales Price:

Current Sales Price:	\$ _____
Subtract net adjusted basis:	- \$ _____
Subtract commission & settlement costs:	- \$ _____
Equals Capital Gain:	= \$ _____ (CG)
Subtract depreciation:	- \$ _____ (D)
Appreciation:	= \$ _____ (A)

Calculate Capital Gain Tax (CGT) Due:

Appreciation (A) times (x) your tax rate (15%) for appreciation of property:	\$ _____ (CGT)
Depreciation (D) times (x) your tax rate (25%) for depreciation recapture:	+\$ _____ (DR)
(CGT) + (DR) = Capital Gain tax* + (DR)	= \$ _____ (CGT)

*This is the amount you would avoid paying or defer if you exchanged.

Note: These tax rates only apply to individual tax payers, Corporations pay at a higher tax rate.

Please discuss with your tax consultant. This material is for information purposes only and is not to be construed as tax advice.

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EXAMPLE

CAPITAL GAIN WORKSHEET

Net Adjusted Basis:

Original Purchase Price:	\$	<u>300,000.00</u>	
Plus capital improvements (not expensed):	+\$	<u>0</u>	
Subtract depreciation:	- \$	<u>50,000.00</u>	(D)
Net Adjusted Basis:	=\$	<u>250,000.00</u>	

Capital Gain Sales Price:

Current Sales Price:	\$	<u>450,000.00</u>	
Subtract net adjusted basis:	- \$	<u>250,000.00</u>	
Subtract commission & settlement costs:	- \$	<u>30,000.00</u>	
Equals Capital Gain:	=\$	<u>170,000.00</u>	(CG)
Subtract depreciation:	-\$	<u>50,000.00</u>	(D)
Appreciation:	=\$	<u>120,000.00</u>	(A)

Calculate Capital Gain Tax (CGT) Due:

Appreciation (A) times (x) your tax rate (15%) for appreciation of property:	\$	<u>18,000.00</u>	(CGT)
Depreciation (D) times (x) your tax rate (25%) for depreciation recapture:	+\$	<u>12,500.00</u>	(DR)
(CGT) + (DR) = Capital Gain tax*	=\$	<u>30,500.00</u>	(CGT) + (DR)

*This is the amount you would avoid paying or defer if you exchanged.

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