



# 7 things you ought to know about your exchange

**1 Type of taxpayer** This could be you as an individual, a partnership you are a part of, an S Corporation, a C Corporation, or other entity. Usually the taxpayer is the entity that owns the property being sold unless it is a disregarded entity for tax purposes. The type of entity doing the sale dictates the tax rates for income and capital gains that apply. This will be important in projections used for long range planning. By knowing the type of entity that is selling and the constituents involved, a transaction can be structured, today, which will defer taxes, maximize cash proceeds and allow flexibility down the road.

**2 Amount of replacement property you MUST purchase for full tax deferral** This is the Total Sale Price of your relinquished property less any costs incurred by the taxpayer in the sale of the property like sale commissions, legal expenses etc.

**3 Amount of cash you need to spend on replacement property** Section 1031 requires that you spend all of the equity in the relinquished property, or, the cash from the sale of relinquished property, less debt paid off and less other costs incurred in the purchase of

replacement property as discussed in #2 above. Cash left over after the purchase of replacement property is called “boot” and is taxable if it is returned to the taxpayer.

**4 Carry-in basis** The carry-in basis in your replacement property will be the same as the adjusted tax basis of your relinquished property. In most cases this number will be the amount the taxpayer paid for the property, less the accumulated depreciation taken over the years the property is owned by the taxpayer, plus the sum of all capital improvements paid for by the taxpayer during the period of ownership.

**5 Tax liability** Know the amount of taxes you will need to pay if you do not do an exchange.

Tax liability may include any of four components: 1) a tax on the recaptured value of a sold property, the difference between its original purchase price and its depreciated value (carry-in basis), 2) a tax on the capital gain, or the difference between the sale price of the property and the original purchase price, 3) state tax which varies for each state, and 4) local tax if the property is sold in a jurisdiction that has one. This means:

## The Seven Things:

1. Taxpayer entity
2. Replacement property needed
3. Cash requirement
4. Carry-in basis
5. Tax liability
6. Deadlines
7. Replacement methods

After-tax outcomes from property sale may vary considerably based on the tax planning which occurs prior to the sale. Net Lease Capital works closely with property sellers and with their advisors to structure transactions for optimal long term results. Speak to your tax advisor as early as possible as you contemplate a sale. And speak to Net Lease Capital for strategic options tailored to enhance your outcomes.

**For individuals:**

(recapture of accumulated depreciation ) x 25%  
capital gain (or appreciation) x 15%

+ state tax

+ local tax, where one exists

**For corporations:**

(sale price - carry-in basis) x (35% capital gains tax)

+ state tax

+ local tax, where one exists

**For partnerships,** the tax is determined separately for each individual partner using the tax components listed under “For individuals” above, and allocated to each individual in a share proportionate to the size of his or her tax capital account.

**6 Date of sale of relinquished property**

You should know this information in order to calculate your identification deadline and the final date by which you must complete your exchange. Including weekends and holidays, your exchange must be completed (meaning you must close on the purchase of all replacement property) within 180 days of the sale of your relinquished property. Also, you must identify replacement property within 45

days of the sale of your relinquished property that you are going to purchase as replacement property.

**7 Alternative identification methods** You may identify replacement property using any one of three rules. Net Lease Capital can help you evaluate which method is most strategically suited for your exchange. The three rules are:

**200% Rule** You may identify as many properties as you wish, up to a combined value of 200% of the sale price of your relinquished property.

**3-Property Rule** You may identify up to three properties with no limit to the combined value.

**95% Rule** You may identify as much property as you wish as long as you purchase 95% of the property you have identified.

**The Advisory Group** at Net Lease Capital works with large real estate interests and with their

tax advisors, providing advanced, customized tax strategies to enhance the after-tax outcomes of property sale. It has closed over \$400 billion in exchange transactions.



**To learn more,** have an Advisory Group analyst speak with your tax advisor or accountant.

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