EASTERN 1031 STARKER EXCHANGE, L.L.C.
920 Kunkles Mill Road, Lewisberry, PA 17339
Phone (877)717-1031 (717)308-1031
Fax (717)292-4745

EXAMPLE FOR CALCULATING CAPITAL GAIN TAXES DUE IF YOU SELL AND DO NOT DO AN EXCHANGE

The gain, not the profit or equity, from the sale of your business, trade or 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.

STEP #1: Calculate Net Adjusted Basis

	$100,000	Original Purchase Price
+	$ 1,000	Improvements (Non Expensed)
-	$ 10,000	Depreciation Taken
	$ 91,000	**Equals Net Adjusted Basis**

STEP #2: Calculate Capital Gain

	$200,000	Sales Price (FMV)
-	$ 91,000	Net Adjusted Basis
-	$ 13,000	Cost of Sale (commissions, fees, etc.)
	$ 96,000	**Equals Realized Capital Gain** (Line 19 of Form 8824)

STEP #3: Calculate Capital Gain Tax Due

	$ 2,500	*Recaptured Depreciation (25%) X Depreciation used above
+	$ 12,900	*Federal Capital Gain Tax (15%) X Your Realized Cap.Gain
	2%	Your State Capital Gain Tax Rate (Estimated Rate)
+	$ 1,920	**State Capital Gain Tax
	$ 17,320	**Equals Total Taxes Due**

*These amounts can be deferred by doing an exchange.
**Some states do not allow a deferral of State Capital Gain Taxes.

You can defer all Federal Capital Gain Tax simply by performing an exchange with ***Eastern 1031 Starker Exchange, L.L.C.*** for a replacement property of equal or higher value than the property you formerly held, and by acquiring debt equal to or exceeding the debt you previously held. If the debt on your property is low, or your gain is large, even a partial deferral may work out well for you!

EASTERN 1031 STARKER EXCHANGE, L.L.C. recommends that investors considering a tax deferred exchange should seek the advice of their accountant and or attorney for professional legal advice.

EXAMPLE 1

WORKSHEET FOR CALCULATING YOUR CAPITAL GAIN TAXES DUE IF YOU SELL AND DO NOT DO AN EXCHANGE

STEP #1: Calculate Net Adjusted Basis

	$	Original Purchase Price
+	$	Improvements (Non Expensed)
-	$	Depreciation
	$	**Equals Net Adjusted Basis**

STEP #2: Calculate Capital Gain

	$	Sales Price (FMV)
-	$	Net Adjusted Basis
-	$	Cost of Sale (commissions, fees, etc.)
	$	**Equals Realized Capital Gain** (Line 19 of Form 8824)

STEP #3: Calculate Capital Gain Tax Due

	$	*Recaptured Depreciation (25%) X Depreciation used above
	$	*Federal Capital Gain Tax (15%) X Your Realized Cap.Gain
		Your State Capital Gain Tax Rate
+	$	**State Capital Gain Tax
	$	**Equals Total Taxes Due**

*These amounts can be deferred by doing an exchange.
**Some states do not allow a deferral of State Capital Gain Taxes.

You can defer all Federal Capital Gain Tax simply by performing an exchange with ***Eastern 1031 Starker Exchange, L.L.C.*** for a replacement property of equal or higher value than the property you formerly held, and by acquiring debt equal to or exceeding the debt you previously held. If the debt on your property is low, or your gain is large, even a partial deferral may work out well for you!

EASTERN 1031 STARKER EXCHANGE, L.L.C. recommends that investors considering a tax deferred exchange should seek the advice of their accountant and or attorney for professional legal advice.

WORKSHEET 1

<u>EXAMPLE FOR CALCULATING HOW MUCH OF THE CAPITAL GAIN REALIZED ON PAGE "1" WILL BECOME RECOGNIZED AND TAXABLE (IF ANY) BY DOING AN EXCHANGE</u>

1.	Relief of Debt on Relinquished Property	$ 50,000
2.	Less: Debt acquired on Replacement Property	$ 50,000
3.	Equals: Net relief of liabilities (not less than 0) These 3 lines determine if there is any mortgage boot. If debt acquired is less then debt relief, mortgage boot results. Answer may not be less then zero because excess mortgage cannot offset cash boot. But, excess cash paid, can off set mortgage boot (the term **boot**, means taxable gain)	$ - 0 -
4.	Plus: Cash received Note: FMV of Relinquished Property (from Step #2, Page 1) less debt relief (Line 1, Page 2) less FMV of other property received including value of owner held Notes (Line 10, Page 2) should equal cash received.	$150,000
5.	Less: Cash paid Note: Cash paid is normally the difference between Replacement Property contract price and loan amount.	$134,250
6.	Less: Cost of sale expenses (from Step #2, Page 1)	$ 13,000
7.	Less: Exchange expense and closing fee of Replacement Property	$ 2,750
8.	Less: FMV of "other property" Relinquished "other property' is non-like property, such as personal property (very few exchanges include "other property".	<u>$ - 0 -</u>
9.	Equals total boot received (not less then 0) (Boot is taxable gain)	$ - 0 -
10.	Plus: FMV of "other property", cash & Notes received Owner financing can create problems in an exchange if unavoidable, call ***Eastern 1031*** for recommendations.	<u>$ - 0 -</u>
11.	Equals total Recognized Gain	$ - 0 -
12.	Recognized Gain (taxable income) (The smaller from Step #2, Page 1) or Line 11 above *Is posted on Line 15 on IRS Form 8824	$ - 0 - *

EXAMPLE 2

WORKSHEET FOR CALCULATING HOW MUCH OF THE CAPITAL GAIN REALIZED ON PAGE "1" WILL BECOME RECOGNIZED AND TAXABLE (IF ANY) BY DOING AN EXCHANGE

1. Relief of Debt on Relinquished Property $

2. Less: Debt acquired on Replacement Property $

4. Equals: Net relief of liabilities (not less than 0) $
These 3 lines determine if there is any mortgage boot.
If debt acquired is less then debt relief, mortgage boot results.
Answer may not be less then zero because excess mortgage cannot offset cash boot. But, excess cash paid, can off set mortgage boot (the term **boot**, means taxable gain)

4. Plus: Cash received $
Note: FMV of Relinquished Property (from Step #2, Page 1) less debt relief (Line 1, Page 2) less FMV of other property received including value of owner held Notes (Line 10, Page 2) should equal cash received.

5. Less: Cash paid $
Note: Cash paid is normally the difference between Replacement Property contract price and loan amount.

6. Less: Cost of sale expenses (from Step #2, Page 1) $

7. Less: Exchange expense and closing fee of Replacement Property $

8. Less: FMV of "other property" Relinquished $
"other property' is non-like property, such as personal property (very few exchanges include "other property".

9. Equals total boot received (not less then 0) (Boot is taxable gain) $

10. Plus: FMV of "other property", cash & Notes received $
Owner financing can create problems in an exchange if unavoidable, call ***Eastern 1031*** for recommendations.

11. Equals total Recognized Gain $

12. Recognized Gain (taxable income) $ *
(The smaller from Step #2, Page 1) or Line 11 above
*Is posted on Line 15 on IRS Form 8824

WORKSHEET 2