

# CHICAGO DEFERRED EXCHANGE COMPANY

## ESTIMATING CAPITAL GAINS TAX

The following example illustrates estimated capital gains tax savings to a non-corporate taxpayer, as a result of effectuating an exchange under IRC Section 1031.

### Calculating Adjusted Cost Basis in Relinquished Property:

Original Purchase Price	\$500,000
+ Capital Improvements	\$50,000
- Depreciation Allowed	(\$165,000)
= Adjusted Cost Basis	\$385,000

### Calculating Realized Gain on the Sale of Relinquished Property:

FMV of Relinquished Property	\$1,000,000
- Adjusted Cost Basis	(\$385,000)
= Realized Gain	\$615,000

### Gain from Appreciation v. Gain from Depreciation:

Appreciation: FMV today = \$1,000,000 less (original purchase price = \$500,000 + \$50,000 capital improvements) = \$450,000 gain from appreciation

### Un-recaptured Section 1250 Gain (Depreciation):

\$615,000 realized gain less \$450,000 gain from appreciation = \$165,000

### Calculating Capital Gains Tax Liability:

Realized Gain from Appreciation: 15% for capital assets owned for more than one year and sold or exchanged on or after May 25, 2003

$$= \$450,000 \times 15\% = \$67,500$$

plus Un-recaptured Section 1250 Gain (Depreciation) tax rate: 25%

$$= \$165,000 \times 25\% = \$41,250$$

Total Tax Liability = \$67,500 + \$41,250

$$= \$108,750$$

Headquarters  
135 S. LaSalle Street  
Chicago, IL 60603  
Toll Free (866) 677-1031  
Fax (312) 580-0610

New England Branch Office  
40 Court Street  
Plymouth, MA 02360  
Toll Free (877) 811-1031  
Fax (508) 732-3201

Northern California Branch Office  
3160 Crow Canyon Road  
San Ramon, CA 94583  
Toll Free (877) 448-1031  
Fax (800) 669-0250

San Diego Branch Office  
3900 Fifth Avenue  
San Diego, CA 92103  
Toll Free (877) 446-1031  
Fax (619) 497-2491

CDEC1031.com