

Understanding the 1031 Exchange Formula

Federal taxes increased for high income earners in 2013 and owners who decide to sell an investment property are likely subject to the following Federal tax rates (based on modified adjusted gross income):

<u>Individual</u>	<u>Married</u>	<u>Capital Gains</u>
<\$200K	<\$200K	15%
\$200-400K	\$250-450K	15%
\$400K+	\$450K+	20%

In addition to increased Federal capital gains tax rates, The Health Care and Education Reconciliation Act of 2010 added a 3.8% Medicare Surtax on capital gains. The 3.8% surtax only applies to individual taxpayers with income over \$200K or joint taxpayers with income over \$250K.

State taxes may also apply depending on which state the property was sold in. For property sold in California, the state tax typically ranges anywhere between 9.3% - 13.3%, depending on income levels.

Calculating the tax bill upon the sale of a property requires a firm understanding of some basic accounting principles. The first thing to understand is how to calculate the Adjusted Basis.

<u>Formula</u>	<u>Example</u>
Net Purchase Price	\$500,000
(Depreciation)	(\$100,000)
+ <u>Capital Improvements</u>	+\$25,000
Adjusted Basis	\$425,000

Once the Adjusted Basis is figured, calculating the gain is simple:

<u>Formula</u>	<u>Example</u>
Net Sales Price	\$1,000,000
(<u>Adjusted Basis</u>)	(\$425,000)
Gain	\$575,000

Tax computations can then be made by using the applicable tax rates:

<u>Tax</u>	<u>Formula</u>
Federal Capital Gain	20% * (Gain - Depreciation)
Medicare Tax	3.8% * Gain
CA State Tax	9.3% * Gain
Depreciation Recapture Tax	25% * Depreciation

Keep in mind, that regardless of how much tax is potentially owed, the entire amount can be deferred with a 1031 Exchange. Please contact your accountant/CPA or a certified exchange company for any questions.

Source: Asset Exchange Company

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**Current SBA 504 Effective
Rate for
May 2016 is 4.31%**

SBA 504 Commercial Refinancing

Soon small business owners will be able to refinance conventional commercial real estate loans with the attractive rates and terms available through TMC's SBA 504 loan program. The SBA will begin accepting applications on June 24th, 2016. Multiple commercial loans can be refinanced. Refinancing is available for up to 90% loan to value or 75% loan to value if you take cash out. There is a 10 year and 20 year fixed rate option.

Here are some of the eligibility requirements for the program:

- The subject property must be a minimum 51% owner occupied and meet all other eligibility requirements of the SBA 504 program.
- SBA 504 Refinance can only be used to refinance conventional financing.
- The existing loan and business must be at least 2 years old
- At least 85% of the existing loan must have been for 504 eligible purchases
- Loan(s) to be refinanced must be current for at least the past 12 months

Source: Small Business Administration/CDC

Featured Property: Huge Price Reduction!



501-503 S. Myrtle Ave Monrovia
17,691 SF Retail/Office Building

Approx. 17,691 SF commercial building for sale. Possible for partial owner/user or investment.

100% occupied with established tenants.

Many units leased below market rents- opportunity to realize an upside in current market rents.

Two retail spaces on the first floor- one available for an owner/user currently with a month to month tenant. Approximately 2,176-2,822 SF.



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Linda specializes in commercial and industrial sales and leasing throughout the San Gabriel Valley. She has extensive knowledge in 1031 exchange transactions, investment opportunities, and market analysis. Feel free to contact Linda with any questions or requests for information.

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