

How to Sidestep Paying Tax on the Sale of Your Property ...Legally!

Where else but real estate can you make money, and put off the tax bill forever? That's right, pay no tax at all, on any property in the USA

You have heard that there are **two inescapable absolutes; death and taxes**. Let's let the others believe it, while we learn how to sidestep taxes, stay out of jail, and thus, at least enhance our longevity.

OK, if you like to pay tax and writing those checks makes you feel warm and fuzzy, this report is not for you, and you are excused now. However, if you get a frustrated, sick feeling in the pit of your stomach when you write checks to the IRS, and would prefer to keep that money in your possession earning for you, I've got some great ideas for you.

There are many investments you can make, and one of my favorites is real estate. Many of my readers have already invested in their own home. In addition to providing your family a comfortable place to live and enjoy, it likely has been a very good financial investment as well. The icing on the cake is when you sell your personal residence, any gain up to \$250,000 (or \$500,000 for a couple) is tax exempt! To qualify you need only live there primarily for 2 of the last 5 years. This is nice, but there is more!

Some of you may own rental properties, condos, office buildings, vacant land, commercial properties, etc. that you no longer want, or other properties that you would prefer to own. The obstacle for selling your property, is the tax you will owe the IRS upon sale. Between the depreciation you were allowed to take, and the accumulated appreciation, you have made a tidy sum. The IRS is held at bay only until you cash out on a sale. Yikes!

Let's cover a few of the mechanics involved. When you own investment property, you have two components, the land and the improvements (building), (vacant land and condos being the exception, with only one component each).

In general, the improvements are expected to deteriorate over time, so the IRS allows you to deduct this "loss" as depreciation over a specific schedule. **This is a really nice tax break.** If you choose to take depreciation deductions (almost everyone does,) each deduction is subtracted from your original purchase price to establish your "**basis**" in the property. The basis is tracked to make sure if you ever sell the property for more than the basis, the IRS will be able to tax you on this gain.

The second component, land, tends to appreciate over time. It is common for the appreciation of the land to outpace the deterioration of the improvements, resulting on a net gain in the whole property value. Upon the sale of the property, the IRS is going to want a chunk of your gain through appreciation, they call it a "**Capital Gain Tax**," and it is usually **20%**!

Let's keep that 20% for ourselves! A great way to avoid tax payment upon the sale of a property is to **exchange it**. Before you start to calculate how improbable it is to find another person to swap properties, which in truth, is next to impossible, **our exchange is actually much simpler.**

In the tax code is a provision called a "**1031**" or "**Starker exchange**". Properly conducted, it allows you to sell a property or properties and at the closing, the funds do not come to you, but rather are received by a chosen intermediary. You can choose and purchase **any property or properties** within the US in the next 6 months, of equal or greater value, with the funds from your intermediary, **without paying tax on your original sale.**

It is that simple, but there are a number of very important details to discuss with your real estate professional. By the way if you choose to use this strategy, **choose your realtor very carefully**, one missed step can cost you a bundle.

Let's take a look at a practical example. Tim and Beth have owned and managed two rental homes for several years. The rental homes are doing OK, but they really like skiing, and would like to buy a second home in Steamboat.

After meeting with a very sharp Steamboat agent, they discovered several really nice places they like, and a great way to pay for them!

If they sold their rental properties, and paid their tax bill, the cash remaining was not enough to buy the property they really liked. The Steamboat agent helped hook them up with a sharp agent in the area of their rental properties, and sell them through a 1031 Exchange. When the rental properties closed, **all** of the proceeds were available to purchase the Steamboat property. The basis from both rental properties are then transferred into the Steamboat property.

Since the new owner is not able to live in Steamboat full time, they enlist the help of a local property management company to rent out their property to guests when they are not using it. This rental income is very helpful in defraying their costs, and again allows them to buy a nicer property than they could have afforded otherwise.

Tim and Beth are having the best of times enjoying their Steamboat getaway with family and friends. Some of their fondest memories revolve around that home. After, raising their family, they begin to create new memories with their grandchildren too.

Once Tim and Beth retire, they could sell their primary home (tax free on gain up to \$500,000,) and move to their Steamboat home. After living in Steamboat two years, they could even sell this property tax free, as they did their prior primary residence.

However, appreciation rates in Steamboat were so fantastic that their gain will far exceed the \$500,000 limit and trigger a tax liability. They elect to live on in the property, well aware that the home will pass to their heirs with the basis adjusted to the market value of the property as of the day of transfer. This basis adjustment effectively eliminates any tax liability on a tremendous gain.

Now, Tim and Beth could have done fine with their two rental houses. But by transferring their full equity to Steamboat through a 1031 exchange, they were able to get a home to enjoy with friends and family. They also prospered beyond their expectations, as they got into a fantastic area, which enjoyed appreciation rates many times greater than other areas.

Hopefully this report has introduced you to some ideas to open new doors. You can round these out with your real estate professional, and verify with your tax and legal council.

Life is all about choices, I hope you choose to come have fun with us in Steamboat.