Computational Worksheet

Following is a sample worksheet to assist you in calculating like-kind exchange gains and basis of property received (FMV = Fair Market Value):

	Surrendered	**Received**
Description of properties		
FMV of like-kind property received		1.
Liabilities (mortgage)	2a.	2b.
Adjusted basis of like-kind property surrendered	3.	
Cash	4a.	4b.
FMV of non like-kind property	5a.	5b.

Gain Realized:	
FMV of property received by taxpayer (line 1.)	
Plus FMV of cash or other property received by taxpayer (line 4b.+5b.)	
Plus liabilities assumed by other party (line 2a.)	
Less adjusted basis of property surrendered by taxpayer (line 3.)	
Less FMV of cash or other property given by taxpayer (line 4a.+5a.)	
Less liabilities assumed by taxpayer (line 2b.)	
Gain realized	
Gain Recognized:	
Boot Received:	
FMV of cash or other property received by taxpayer (line 4b.+5b.)	
Plus liabilities assumed by other party (line 2a.)	
Boot Received	6.
Boot Given:	
FMV of cash or other property given by taxpayer (line 4a.+5a.)	
Less liabilities assumed by taxpayer (line 2b.)	
Boot Given	7.
Gain recognized (lesser of gain realized, or boot received - boot given)	8.
Basis of Property Received:	
Adjusted basis of property surrendered by taxpayer (line 3.)	
Plus liabilities assumed by taxpayer (line 2b.)	
Plus FMV of cash or other property given by taxpayer (line 7.)	
Plus gain recognized (line 8.)	
Less liabilities assumed by other party (line 2a.)	
Less FMV of cash or other property received by taxpayer (line 6.)	
Basis of property received	

Consulting Services

- Entity selection
- Project analysis, including financial proformas and budgeting
- Operational reviews
- Internal control analysis
- Review and evaluation of lease agreements
- Review and analysis of acquisition, disposition and financing transactions
- Like-kind exchange consulting and facilitation
- Cost segregation studies
- Audits of U.S. Dept of Housing and Urban Development-subsidized projects
- Valuation of ownership interests
- Succession planning and wealth transfer consulting
- Loan workouts and lender negotiation

Assurance Services

- Audit, review and compiled financial statements
- Performance of agreed-upon audit procedures
- Forensic accounting

Tax Services

- Corporate tax returns
- Shareholder tax returns
- Individual and corporate tax planning
- Creative tax strategies
- Cost recovery studies to optimize depreciation deduction
- Multi-state tax planning and strategy development
- Sales, use, property and excise tax analysis

Real Estate Team Members

- Michael A. Fritton, CPA
- Daniel D. Dickerson, CPA
- Cynthia S. Bay, CPA

Contact us to find out how we can help you look at your real estate ventures in a new way.

Somerset CPAs, P.C.
3925 River Crossing Parkway, Third Floor
Post Office Box 40368
Indianapolis, Indiana 46240-0368
Tel: 317.472.2200 - 800.469.7206
Email: info@somersetcpas.com
www.somersetcpas.com

Like-Kind Exchanges

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LIKE-KIND EXCHANGES

IRC Section 1031 provides for a tax deferred exchange of qualifying business or investment property for like-kind property. The property exchanges may be structured as simultaneous, deferred or reverse exchanges.

Requirements

- Property must be held for investment or productive use in a trade or business.
- Property transferred and received must be similar in nature or character
  - Real estate for real estate
  - Personal property for personal property.
- Property must be an exchange of one property for another, rather than a transfer of property for cash used to buy replacement property.

Qualifying Property

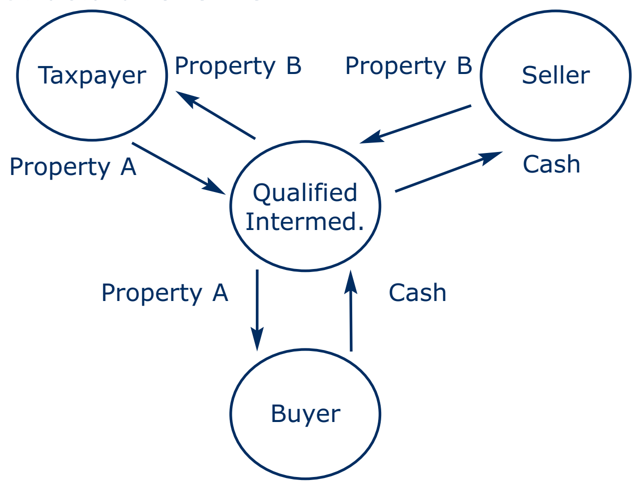
- Property must be held for productive use in a trade or business or for investment.
  - Business operating assets
    - Owner-operated manufacturing facility
    - Machinery/equipment
  - Rental real estate
  - Investment property
- Excluded property includes:
  - Personal use asset, such as a vacation home
  - Inventory
  - Stocks, bonds and other securities
  - Partnership interests
  - Certificates of trusts or beneficial interests
  - Choices in action (e.g., a lawsuit)
  - Property outside U.S.

Deferred Exchanges

A deferred like-kind exchange occurs when one party transfers property to an intermediary with the intermediary obligated to acquire property of like-kind for transfer to the first party. There are timing requirements in a deferred exchange. These timing requirements are statutory; therefore, they cannot be extended.

- The replacement property must be identified no later than 45 days after the transfer of the relinquished property.
- The exchange of replacement property shall be completed no later than 180 days after the transfer of the relinquished property.

Structural Overview



- Qualified intermediary:
  - Independent, unrelated, disinterested party
  - Serves as a middleman or clearinghouse
  - Must NOT be the agent of the exchanger
    - Employee, partner, attorney, accountant, broker, real estate agent, family member, etc., are disqualified

- Qualified intermediary services:
  - Serves as a middleman or clearinghouse
  - Holds exchange proceeds
  - Provides documentation
    - Contract language
    - Exchange agreement
    - Instructions to all parties
  - Consults on complex transactions

Reasons to Exchange

- Postpone the recognition of gain indefinitely (or permanently in the case of death).
- Change the type of investment return that a client currently is receiving from his investment realty portfolio (land for office building).
- Convert tax attributes of the relinquished property to different tax attributes in the replacement property (capital loss to ordinary loss; non-passive capital gain to passive capital gain).

Reasons NOT to Exchange

- Real property is located in a depressed real estate market (if loss would be recognized upon sale).
- Under the passive activity rules, a sale may be more advantageous if there are suspended passive losses that would offset the gain.
- Availability of low capital gain rates.
- Combination of low capital gains rates and installment sale reporting.

Recognition of Gain

- General rule for deferral:
  - Exchange up in value
  - Exchange up in equity
  - Exchange up in debt
- As a general rule to obtain gain deferral the exchanger MUST:
  - Reinvest all of the net proceeds from the relinquished property
  - Obtain equal or greater financing on the replacement property that was paid off on the relinquished property (replacement property debt can be offset with cash put into the exchange)
  - Receive nothing in the exchange but like-kind property
- Gain is recognized to the extent cash or debt relief is received.
- Netting of cash received and paid.
- Netting of debt assumed and relieved.
- Assumption of debt does not offset cash received.
  - Additional cash offsets debt reduction
  - Assumption of debt does not offset cash received