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Ways to Defer Capital Gains Tax Exposure When Selling Investment Properties

With the new year upon us, many of us are thinking about taxes. While it's too late to strategize for 2018, let's look at tax strategies going forward.

REAL ESTATE TODAY

By JIM SMITH, Realtor®

Owners of duplex, triplex and small multi-unit properties sell their properties for many reasons. Sometimes an owner wants to leverage equity into another property with better upside potential or a higher return on their investment or into multiple income producing properties.

Perhaps a duplex property was inherited but the responsibility of being a landlord has become overly burdensome. Whatever the situation, there are times when selling a multi-unit rental property and transferring the equity into an alternative "hands-off" type of investment makes sense. You can defer your capital gains tax obligations and keep your pre-tax capital growing for you by utilizing one of these IRS-approved options.

<u>1031 Real Estate Exchange</u>: The 1031 real estate exchange is a tax-deferral strategy that applies to investors who have sold or are about to sell investment real estate. This strategy allows a client to defer capital gains tax on all sales proceeds that are reinvested into other investment real estate properties, as long as the seller:

1) does not take "constructive receipt" of the funds within the exchange transaction. This means that the proceeds must go directly to a "qualified intermediary" and not at any point be in the seller's own bank account.

2) meets all requirements outlined in the Internal Revenue Code.

<u>721 Exchange</u>: Less well-known than the 1031 exchange, the 721 exchange is another tax-deferral strategy which applies to investors who have sold or are about to sell investment real estate. This strategy is similar to the 1031 exchange but allows an investor to exchange his property for an interest in a diversified real estate portfolio known as a Real Estate Investment Trust (REIT). As with the 1031 exchange, the seller must not take constructive receipt of the sales proceeds within the transaction.

<u>Delaware Statutory Trust</u> is offered as replacement property for those seeking to defer capital gains taxes via a 1031 exchange. The DST allows for fractional interest ownership in various managed commercial properties with other investors, as individual owners within a Trust. Each owner receives a share of the cash flow income, tax benefits, and appreciation of an entire property. There is potential for annual appreciation and depreciation. Investments begin at $100,000 and allow investors to diversify into several properties.

<u>Deferred Sales Trust</u> is a tax-deferral strategy that applies to many different capital gains situations. These include the sale of a business, real estate, stocks, or bonds, as well as the maturity of principal on a note or carry-back, and even applies in certain debt forgiveness situations. The Deferred Sales Trust is *different* from the 1031 and 721 exchanges in that it does not require any reinvestment of the sales proceeds into real estate. It is *similar* to 1031 and 721 exchanges insofar as an investor cannot take constructive receipt of the funds within the transaction.

For expanded, detailed information on each of these tax strategies, visit www,DuplexAlerts.com and click on the "Sellers" tab in the main menu.

Always consult with your tax or wealth management professional when considering the sale or purchase of an investment property.

<u>A quick caveat</u>: Neither I nor any agent at Golden Real Estate is a CPA or tax advisor. Broker associate Andrew Lesko did the research for this article. Email Andrew at Andrew@GoldenRealEstate.com or 720-710-1000 with your questions or comments.

Jim Swanson's Arvada bungalow on 0.97 acres at 7050 W. 61st Ave. will be open this **Saturday 10-1 and Sunday 12-3.** Take a narrated video tour at **www.ArvadaRanch.info**.

Golden Real Estate Launches Sustainability Series

As you may already know, Golden Real Estate is a leader in sustainability, as expressed in the value statement printed on all our yard signs: *"Promoting and Modeling Environmental Responsibility."* And most of our agents, including myself, are Certified Eco-Brokers, having taken extra training in all aspects of sustainability as it applies to real estate.

We'd like to share what we've learned with you, so we're launching a Sustainability Series that will take place on the third Thursday of every month in our office. We can accommodate 20 or more attendees in our office, but we will move it elsewhere if the demand exceeds our capacity, so please RSVP. *You can do so now for all sessions.*

Each meeting will focus on a single aspect of sustainability. Here's the schedule for the first six meetings (subject to change):

Jan. 17th — Home Insulation — Walls, windows, foundations, crawl spaces, attics. (This is a bigger topic than you might think, but it's also the cheapest and most effective path to reducing energy consumption.)

Feb. 21st — Home Heating Methods — Forced air, heat pumps, radiant floor, solar thermal, and other technologies.

Mar. 21st — Solar Power — Rooftop and ground-mounted photovoltaic, solar gardens, solar panels vs. solar roof tiles, and home battery storage/backup.

Apr. 18th — Electric Vehicles — What's here now and what's coming soon in cars, trucks, motorcycles and more.

May 16th — Sustainable Renovation — What are the more sustainable and popular materials and designs?

June 20th — Water Conservation — The latest concepts and products for conserving water use, both indoors and outdoors.

All sessions are 1 hour long and begin at 5 p.m. in our Golden office or nearby if a larger space is needed based on the number of reservations received. The sessions will be led by experts in the field, although you can count on me to add my own comments!

Go ahead and reserve your seat for any or all sustainability sessions now by sending an email to Jim@GoldenRealEstate.com. We look forward to producing this informative series!

Golden Real Estate's Sustainable Practices

1) *Our office produces more energy than it consumes.* With our 20 kW of solar panels, we heat, cool and power our office and charge our six electric cars. We also provide free EV charging to the general public, yet our Xcel Energy bill is only $11.26/month. We asked Xcel to remove our natural gas meter.

2) *We accept polystyrene from the public* in our "Styrofoam Corral," keeping over 200 cubic yards of the material out of the landfill every year.

3) *We use only LED light fixtures* and have 4 "sun tunnels" (skylights) for naturally lighting our office.

Read about our transition to "Net Zero" in our Jan. 4, 2018, column, "Promoting & Modeling Environmental Responsibility," at www.JimSmithColumns.com.

GOLDEN REAL ESTATE

Get this column in your inbox every Thursday. Send your request to Jim@GoldenRealEstate.com.

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