

## 1031 STRATEGIES FOR 2011 & 2012

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The passage of the Tax Relief Act of 2010 extended the Bush Tax rates and credits for two additional years. The long term capital gain tax rate will continue at 15% for individuals in the 25% federal income tax bracket or above. The 25% tax bracket is calculated on taxable income after all deductions and exemptions. For single individuals the 25% tax bracket begins with income of \$34,500 or greater and for married filing jointly it is income of \$69,000 or greater.

With strategic tax planning you might be able to take advantage of the extended 0% capital gains tax rate if your income falls under the 25% tax bracket amounts mentioned above. For example, if you are married filing jointly and your taxable income before long term capital gains is \$40,000, you can generate up to \$28,000 worth of long term capital gains and not pay any federal capital gain tax.

You might consider a partial 1031 exchange and take advantage of the 0% capital gains tax rate at the same time. A real estate investor could sell their old investment property and buy down in value equal to the profit amount to keep them under the 25% tax bracket income amount. Consider purchasing a more desirable property and saving taxes at the same time.

State income tax can be a spoiler if you are successful in having income below the 25% tax bracket resulting in a 0% long term capital gain tax rate. Most states don't have a special rate for capital gains and taxes will be due on the income.

Another issue to consider is if a retired person receiving social security benefits sells a long term asset creating capital gain, the additional income can make more Social Security benefits taxable. By utilizing a tax calculator available online at some software tax preparation company websites, you can estimate the additional income tax due. For example, a married couple, both 65 years old, receiving \$30,000 in Social Security benefits, can generate \$60,000 in long term capital gains and pay less than \$500 in federal income tax.

Prior to any contemplated 1031 exchange transaction check with your direct tax advisor regarding your own tax situation. If you have a passive loss carry forward or a long term capital loss, it could be beneficial for you to do an outright sale, a partial 1031 exchange, or an installment sale for tax purposes. Additionally, if you have converted a rental property into your primary residence in the last 3 years, you may receive only a prorated exclusion based upon how long the property was used as a primary residence.

Planning is the key to your successful 1031 exchange and calculating any long term capital gains for a partial 1031 exchange transaction. Utilize Bankers Escrow Corp. for your next 1031. Bankers Escrow carries the Colorado state mandated fidelity bonding and errors & omission insurance. We safely hold 1031 funds in segregated money market accounts for the benefit of each exchanger.

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