

# 1031 Exchange and Defer? Or Sell and Pay Taxes?

The Effect of Taxes on Real Estate Investment Sales

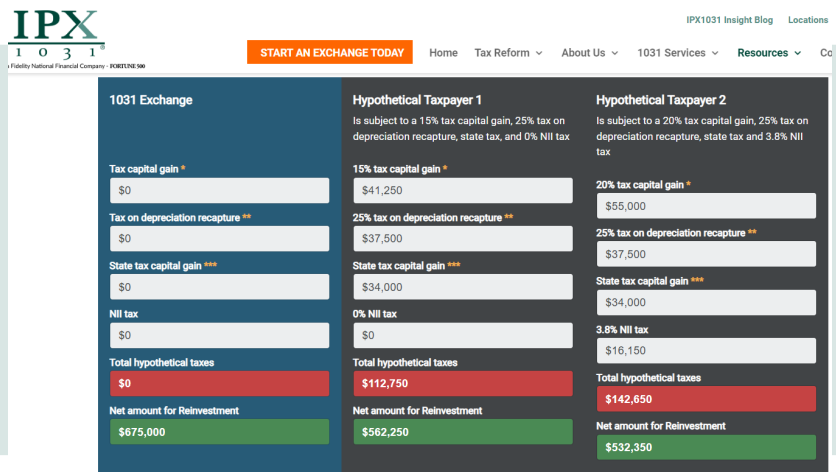
1031 Insight June 2022

Coming out of a global pandemic and rising interest rates have not hindered the positive outlook of the CRE industry. Last year saw a record number of 1031 Exchanges, and halfway through 2022, transactions remain robust. If you are considering the sale of investment property, rather than a tax liability of up to 40%, you may utilize a 1031 Exchange to defer the following taxes:

- Capital Gains – Your rate will vary based on your taxable income . For 2022, your rate may be 20% if taxable income exceeds \$459,751 (single) or \$517,201 (married filing jointly).
- Net Investment Income Tax (NIIT) – If you have income from investments, including capital gains, you may be subject to a 3.8% net investment income tax on your adjusted gross income in excess of \$200,000 (\$250,000 if married filing jointly). [Read more to see if this applies to you.](#)
- State tax –You may be subject to state or local income taxes. State tax rates vary from 0% to the highest rate in California at 13.3%. [See 2022 rates here.](#)
- Depreciation Recapture – A flat Federal tax rate of [25% is applied for unrecognized gain due to depreciation.](#)

## Capital Gain Estimator

Use our [Capital Gain Estimator tool](#) that illustrates potential taxes to be paid in a taxable sale vs. a 1031 Exchange.



1031 Exchange	Hypothetical Taxpayer 1 <small>Is subject to a 15% tax capital gain, 25% tax on depreciation recapture, state tax, and 0% NIIT tax</small>	Hypothetical Taxpayer 2 <small>Is subject to a 20% tax capital gain, 25% tax on depreciation recapture, state tax and 3.8% NIIT tax</small>
Tax capital gain *	\$0	\$41,250
Tax on depreciation recapture **	\$0	\$37,500
State tax capital gain ***	\$0	\$34,000
NIIT tax	\$0	\$0
<b>Total hypothetical taxes</b>	<b>\$0</b>	<b>\$112,750</b>
Net amount for Reinvestment	\$675,000	\$562,250
		<b>\$142,650</b>
		Net amount for Reinvestment
		\$532,350

## Tax and Legal Advisors

The calculation of taxes involves many factors and your individual situation may require additional variables. Speak to your tax or legal advisors.

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At Investment Property Exchange Services, Inc, ( IPX1031), we pride ourselves on being the industry leader in 1031 expertise, service and security. We aim to be your complete information resource and look forward to helping you and/or your clients maximize qualifying investments through a 1031 Exchange strategy. For more information about debt replacement, our company, our complimentary 1031 Exchange webinars, or to [initiate an exchange](#), visit our website at [www.ipx1031.com](http://www.ipx1031.com) or email or call today.

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