



Case Study: The Imperial (Real Estate)

The Problem

William Smith purchased The Imperial Apartments in 1998 for \$1.5M and he's been taking approximately \$50,000 in depreciation deductions against the property each year (27.5 year MACRS residential rental property). He sold the building in February 2008 for \$2.5M.

At the time of sale, his tax basis in the property was \$1M. He purchased another apartment building in July, paying \$3.25M. The new building is also 27.5 year MACRS residential rental property and is depreciated for tax purposes from the time of acquisition. Smith's 2008 tax consequences are significant.



The tax gain recognized on the sale of the apartment building is \$1.5M (\$2.5M sale price - \$1M adjusted tax basis = \$1.5M), making his total tax \$350,000.

- Federal Long-term Capital gains Tax: \$1M appreciation x 15% = \$150,000
- Tax Attributable to Unrecaptured Section 1250 gain: \$500,000 depreciation x 25% = \$125,000
- State/Local Tax (assumes 5% state tax rate): \$1.5M tax gain x 5% = \$75,000

The Accruit Solution

Working with Accruit, Smith structures the sale of The Imperial as a §1031 single exchange, letting him defer this tax debt indefinitely.

The Results

After executing an LKE, the recognized tax gain on the sale of The Imperial is \$0. The benefit to Smith is the deferral of \$1.5M of tax gain, resulting in a total tax savings of \$350,000 in the year of sale.

** This case is based on a typical real estate exchange scenario.*