

# Until You

# Do the Math

Taxes are paid on capital gain, not equity or profit. It is possible to sell property without realizing much profit and still owe substantial capital gains tax. Capital gain is simply the difference between the sales price and the adjusted basis (i.e. what you paid for the property, plus amounts spent on capital improvements, less depreciation taken) less any closing costs associated with the sale.

To calculate your estimated capital gain – first subtract the adjusted basis from the sales price; then subtract the costs of your transaction, commission, fees, transfer tax, etc.; finally, multiply the capital gain by your combined tax rates (Federal and State) to determine your estimated capital gain tax.

1. Calculate Net Adjusted Basis:	Example
Original Purchase Price _____	\$400,000
Plus Capital Improvements _____	\$25,000
Minus Depreciation Taken ( _____ )	(\$175,000)
Equals Adjusted Basis _____	\$250,000
2. Calculate Capital Gain:	
Current Sales Price _____	\$600,000
Minus Exchange Expenses ( _____ )	(\$30,000)
Minus Adjusted Basis ( _____ )	(\$250,000)
Equals Capital Gain _____	\$320,000
3. Calculate Capital Gain Tax:	
Recapture Depreciation _____ ( $\$175,000 \times 25\% = \text{depreciation recapture}$ )	\$43,750
Plus Federal Capital Gain Tax _____ ( $\$320,000 - \$175,000 = \$145,000 \times 15\%$ )	\$21,750
Plus State Capital Gain Tax _____ (e.g. CA approx. $10\% \times \text{cap. gain}$ )	\$32,000
= Combined Tax Due _____	\$97,500



Call Our National Office  
**800.738.1031**

*The formula set forth above is provided to help you determine your approximate gain and the sums that you may wish to defer through your exchange transaction. Consult with your tax advisor to determine the correct values and whether an exchange is appropriate for your circumstances. OREXCO does not give tax or legal advice.*