

# CLOSING COSTS

## "WHAT COSTS CAN BE CONSIDERED ACCEPTABLE EXCHANGE EXPENSES?"



### Compliments of

### WHAT COSTS CAN BE DEDUCTED?

A frequently asked question is "What expenses can be deducted from the exchange proceeds without resulting in a tax consequence?" Although the IRS has not published a complete list of qualifying expenses, there are some rulings that provide general parameters. Brokerage commissions can be deducted from the exchange proceeds (Revenue Ruling 72-456). Other transactional costs may also be able to be deducted if they are paid in connection with the exchange. (Letter Ruling 8328011).

### WHAT ARE "EXCHANGE EXPENSES?"

Transactional costs that are referred to as "exchange expenses" on Form 8824 are not specifically listed but should generally include costs that are:

A. A direct cost of selling real property, which typically include:

- Real estate commissions
- Title insurance premiums
- Closing or escrow fees
- Legal fees
- Transfer taxes
- Notary fees
- Recording fees

OR -

B. Costs specifically related to the fact the transaction is an exchange such as the Qualified Intermediary fees.

### ITEMS THAT ARE NOT "EXCHANGE EXPENSES"

Although not a complete list, the costs related to obtaining the loan should not be deducted from the proceeds.

### THESE "NON-EXCHANGE EXPENSES" INCLUDE:

- Mortgage points and assumption fees
- Credit reports
- Lender's title insurance
- Prorated mortgage insurance
- Loan fees and loan application fees

### OTHER "NON-EXCHANGE EXPENSES" CAN INCLUDE:

- Property taxes
- Utility charges
- Association fees
- Hazard insurance
- Credits for lease deposits
- Prepaid rents and security deposits

These rough guidelines do not address every potential cost. Exchangers should review their specific transaction and closing costs with their tax and/or legal advisors.



ASSET PRESERVATION  
INCORPORATED

A National IRC §1031 "Qualified Intermediary"

National Headquarters

800-282-1031

Eastern Region Office

866-394-1031

apiexchange.com

info@apiexchange.com

Template # 50

*Asset Preservation, Inc. does not give tax or legal advice. The information contained herein should not be relied upon as a substitute for tax or legal advice obtained from a competent tax and/or legal advisor.*