

# SPLIT TREATMENT EXCHANGES

## "USE TWO TAX CODE SECTIONS TO YOUR ADVANTAGE"



### Compliments of

#### ONE SALE – TWO TAX BREAKS!

A property owner selling a duplex, triplex or four-plex, where the owner lives in one unit and rents out the remaining units, can use two tax code sections and receive excellent tax advantages!

The unit where the owner lives is considered their primary residence and can qualify for exclusion of capital gain taxes as described below under "IRC Section 121 - Benefits of Selling a Residence." The capital gain taxes associated with the remainder of the multi-family property can qualify for tax deferral by performing a §1031 tax deferred exchange on the rental units. All this is possible even though there is one buyer for the entire complex.

#### §121– BENEFITS OF SELLING A RESIDENCE

Tremendous tax benefits are available on the portion of the property considered the primary residence by the owners. The 1997 Taxpayer Relief Act provided homeowners significant tax advantages on what is considered their primary residence. Section 121 of the tax code allows a homeowner to exclude capital gain taxes if they meet the following requirements:

- Couples filing a joint tax return can exclude up to \$500,000 of the capital gain on the sale of their primary residence, and single filers can exclude up to \$250,000.
- The home must have been the primary residence of both spouses for twenty four (24) of the last sixty (60) months.
- This exclusion is available every two years.

#### §1031–BENEFITS OF EXCHANGING

Section 1031 allows an owner of property "held for productive use in a trade or business or for investment" to exchange for another "like-kind" property and defer paying capital gain taxes. The units that have been rented may qualify for these tax benefits.

#### ALLOCATION ISSUES

An accountant is generally needed to determine the value allocated to the residence portion and to the remaining units held for investment. A tax professional may use factors such as the square footage or the quality and value of improvements to each unit in determining what percentage is considered the primary residence and what percentage is allocated to the exchange portion. *[Note: Proper closing techniques must be used. Please consult with API for guidelines.]*

#### EXCELLENT INVESTMENT OPPORTUNITIES

Purchasing a duplex or triplex can be an ideal first investment because the owner can live in one unit and have tenants in the other units making payments, thus helping the owner qualify for the mortgage.



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