

Welcome

Income Tax Planning & Like-Kind Exchange Exit Strategies

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Notice

- This material is provided for informational purposes only and is not to be construed as tax advice. The readers and audience are strongly advised to speak with their tax consultant before attempting to employ any of the concepts stated herein.



Introduction



- Income Tax planning – overview
- 7 like-kind exchange exit strategy examples

Tax Planning



Ordinary income tax.

Capital gains tax.

- Depreciation recapture tax.
- Installment Sale tax treatment.
- Principal Residence, \$250,000 tax exclusion.

Net investment income tax (NIIT).



Tax Planning



A) Entities & tax planning for exchanges.

- Sole Proprietorship, single member LLC
- LLC or Partnership.
- Corporation –
 - C Corporation
 - S Corporation
- Trust.

Exit strategies- exchanges \$\$\$

Example 1 - Larry & Davenia are investors and considering an exchange - \$450,000 property

Three critical components to abide by a traditional like-kind exchange:

- 1) Qualified Intermediary is required.
- 2) IRS timeline - exchange rules required, holding period.
- 3) New property for old property must be equitable and net boot received is \$0.00



Exit strategies- exchanges \$\$\$

Example 2 – Larry & Davenia

Reverse exchange –

- 1) Qualified Intermediary required
- 2) IRS Timeline required
- 3) New property for old property must be equitable and noncash benefit



Exit strategies- exchanges \$\$\$

Example 3 - Larry & Davenia

Conversion to Principal Residence –

1) IRS rules required, 2 year rule

Exception – investment / income property
with prior like-kind exchange(s)



Exit strategies- exchanges \$\$\$

Example 4 - Larry & Davenia

Exchange old vacation home to new vacation

- Not allowed unless they follow safe harbor rules



Exit strategies- exchanges \$\$\$

Example 5 - Larry & Davenia

Exchange of their property in California –

1) New CA state rules as of 1-1-14



Exit strategies- exchanges \$\$\$

Example 6 - Larry & Davenia

Exchange of related party properties –
24 month rule



Exit strategies- exchanges \$\$\$

Example 7 - Larry & Davenia

Gifting during life or at death –

- 1) During life, transfers Donor basis
- 2) At death, step-up basis benefit



Summary



- Income Tax planning – overview
- 7 like-kind exchange exit strategy examples

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