You Can Defer Capital Gains Tax on Sale of Investment Properties — Or Reduce It

Colorado owners of investment real estate have built up a lot of equity over the last several years through appreciation. Selling those properties outright would subject the seller to significant capital gains tax, but there are several strategies for deferring — and in one strategy reducing — that capital gains tax liability.

Many property owners have inquired about selling their investment property in a way that locks in their gains — including owners who are looking to exit the landlord business altogether. Whether your rental property is a single-family home, a duplex, other multi-family dwelling, or a commercial property, you may well be looking to cash out while values are high, but how do you do so while minimizing your tax exposure? There are several strategies for doing so, but one that was created by the Tax Cuts and Jobs Act of December 2017 is particularly attractive, both for its flexibility and the fact that it allows for reduction of the deferred capital gains tax and elimination of future tax.

There are four exit strategies that simply defer capital gains tax obligations. They include the traditional Installment Sale, the Monetized Installment Sale, the Deferred Sales Trust and the Delaware Statutory Trust. By using one of these exit strategies, you can defer the amount of tax you pay on the sale of a rental property, putting your pre-tax capital to work elsewhere. A fifth tool, the Opportunity Trust Fund, created by the Trump tax bill, is likely to become every investor’s favorite. Let me explain why.

The Trump tax bill allowed states to identify “Opportunity Zones,” and Colorado identified 126 such zones, 40% of which are in the Front Range, including Denver and Jefferson County. Altogether there are now 8,700 Opportunity Zones in all 50 states, the District of Columbia, and in five U.S. territories.

If a new investment in an Opportunity Zone property — or in an Opportunity Zone Fund which invests in such properties for you — is held for 10 years, you pay no capital gains tax when you sell.

There’s a further advantage when you roll the capital gain on your current investment property into an Opportunity Zone investment, because you can sell your current property, take out your basis on that property tax-free, while rolling only your gain into an Opportunity Zone Fund. Your basis on the rolled-over gain is increased (and tax liability reduced) by 15% after 7 years, and your gain on the new investment is tax-free if you hold it for 10 years. I’m told that these tax benefits decline on investments made after 2019.

In this article, I’m only talking to you what I understand from reading up on the subject, including at www.IRS.gov. You’ll want to speak to your tax advisor before making any changes in your real estate investment portfolio.

I thank broker associate Andrew Lesko, who specializes in duplex and multi-family properties, for bringing this and the other tax-saving strategies to my attention. If you're thinking about selling your duplex, triplex, townhome or condo, contact Andrew for a current market analysis at 720-710-1000 or visit www.DuplexAlerts.com, where you’ll find more details about all five tax deferral/reduction/elimination strategies.

If you have a commercial property to sell, call me at 303-525-1851 so I can refer you to a trusted commercial broker.

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