

Don't Let Capital Gains Tax Deter You From Cashing Out on an Investment Property

According to the Census Bureau, our country has nearly 116M housing units for a population of 330M men, women, and children. Sixty percent of the housing units are single-family detached homes.

The National Association of Home Builders states that roughly 7M of the housing units (about 6%) are second homes or vacation homes not available to rent.

The Census Bureau calculates there are 20M rental properties in the U.S., owned by 14.3M individual investors. According to www.AirDNA.co, there are 1.1M short-term rentals.

So, there are over 28M properties out of 116M that are either vacation homes, second homes or investment properties of some type.

The Colorado Association of Realtors reports that the number of second home sales has jumped 44% since the beginning of Covid in March 2020. So, whether you own a vacation home, second home, rental home, or short-term rental condo, you own real estate subject to capital gains tax when you sell.

Many sellers of investment properties take advantage of the Sec. 1031 tax deferred exchange option, which allows the property owner to put your full proceeds, pre-tax, to work.

Doing a 1031 exchange of real estate requires what's called a "qualified intermediary" (or QI) and not the title company conducting the closing to hold your proceeds until you reinvest them, and the IRS allows 45 days to identify and 180 days to close on the replacement property. Sellers cannot "touch" the proceeds from the sale of your relinquished property. The QI must work with the title company to facilitate transfer of the proceeds to the new closing. If a qualifying replacement property cannot be closed within 180 days, that opportunity is lost and the gain will be taxable.

Unless the investment property is inherited at your death, there will be a capital gains tax liability. For some, the gain has been so significant that perhaps it's time to pay the tax and laugh all the way to the bank with the remainder. Note: You cannot use the 1031 tax deferral

strategy to sell or purchase a primary residence.

There are capital gains tax calculators online, and I'll post a link to one at GoldenREblog.com, along with links about the 1031 process.

To determine your tax exposure, start with the original purchase price. What did you pay for the property when you bought it? Second, add up all the money you put into capital improvements of the property. Then subtract depreciation which you took on your tax returns. The IRS considers investment real estate's "useful life" to be 27.5 years. The cost basis of the property is the amount you paid, plus the cost of selling it – commissions, settlement fees, and closing costs, minus the depreciation taken.

An agent in our office calculated the following numbers for a deal he is doing and roughly calculated the net gain. His seller's unit was purchased in 2016 for \$275,000, netted the owner \$10,000 per year in passive income, enjoying a 61% profit in just six years, *after tax*. The lucky owner paid the tax man and was left with roughly \$377,000 in cash after everything was deducted. Discuss your particular situation with your CPA if you have one, and, if not, I can recommend a local firm. These figures are round numbers and for the purposes of this article.

I believe in paying taxes. It is

pothole season and street crews are at work. Fireman are on call and the police are vigilant. Our national defense is strong, and we live in the most prosperous nation in the world where wealth can be created simply from smart investing. Be proud, as I am, to pay your taxes, for you made a lot of money in a beautiful place called Colorado.

Austin Pottorff, who deals more than I do with investors, helped with the research for this article.

REAL ESTATE TODAY



By JIM SMITH Realtor®

If Energy Efficiency in Your New Home Matters, Call Us.

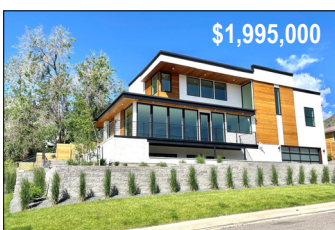
One of the two value statements on our yard signs (see logo below) is "Promoting and Modeling Environmental Responsibility."

If you're a buyer wanting to assess the energy efficiency of the homes you are looking at, you owe it to yourself to hire one of our agents, because we know this topic better than most real estate agents.

In addition to pointing out the good and bad points of the houses we show you, our inspectors "speak green" too, and, as a summer special, we are giving buyers we serve a **Free Energy Audit** as a closing gift.

Just Listed: New Build Near Downtown Golden

This home at **1004 4th Street** is truly one-of-a-kind. There are magnificent views of North and South Table Mountain from the floor-to-ceiling windows on the main level. You are within walking distance to downtown Golden with its famous shops and restaurants. This is a 4-BR, 4-bath home on a corner lot. The wide-open main level floor plan is great for entertaining, or just appreciating the fabulous views and staying cozy near the gas fireplace. The state-of-the-art kitchen is a chef's delight. It has a 6-burner stove with an additional griddle and double oven. The refrigerator is oversized, and there is a walk-in pantry. The primary suite has a spa-like feel with a walk-in steam shower with 3 shower heads. There are 2 sinks with quartz counter, a soaking tub an extra-large walk-in closet. The upper level has two bedrooms, and a tiled 3/4 bath. Outside the bedrooms, there is a wide-open bonus area with desks, bookshelves and fantastic views. Above the 2nd floor a rooftop office/reading room that opens to a private roof-top deck. The lower level could be used as a mother-in-law living space with its extra-large bedroom with a walk-in closet, large living area with a wet bar, and its own private patio. Included is a one-year builder warranty. Take a narrated video tour at www.NorthGoldenHome.com, then come to David Dlugasch's **open house this Sat., 11 to 2**. Or call him at **303-908-4835** to see it.



We Welcome Broker Associate Kathy Jonke to Team

Kathy, who lives in downtown Golden, joined our brokerage this week. We're no longer an all-male brokerage.

She was born and raised in Wheat Ridge. With her degree in Geology and Earth Sciences from the University of Colorado at Boulder and her career with the U.S. Forest Service in geophysics, she relocated often, which gave her the opportunity to renovate houses and historic commercial buildings, and also to design and build new homes. Her passion for real estate led Kathy to become a real estate broker,



and she loves helping people navigate the buying and selling process in the local Golden market.

Kathy settled in Golden five years ago and had a home built in the 9th Street historic district. She is active in the community, where she volunteers with her friend Judy Denison (who I featured recently) at the International Rescue Committee. She also serves on the City of Golden's Historic Preservation Board.

Jim Smith

Broker/Owner, 303-525-1851

Jim@GoldenRealEstate.com

1214 Washington Ave., Golden

Broker Associates:

JIM SWANSON, 303-929-2727

CHUCK BROWN, 303-885-7855

DAVID DLUGASCH, 303-908-4835

GREG KRAFT, 720-353-1922

AUSTIN POTTORFF, 970-281-9071

KATHY JONKE, 303-990-7428

