TAX YEAR 2024

Real Estate Professionals

The Real Estate ACCOUNTANT

Tax Benefits

If you spend significant time in activities related to real estate, you may qualify as a "real estate professional," which can provide tax benefits.

Passive Loss Limits

A passive activity is generally defined as a business activity without a minimum amount of "material participation" by the taxpayer. A taxpayer is not allowed to deduct losses from passive activities in excess of income from passive activities. Any unused losses from passive activities must be carried forward until there are gains from passive activities, or until the passive activities that generated the losses are disposed of.

Special Rules for Real Estate Activities

Under passive loss rules, rental real estate activities are considered passive activities regardless of whether you meet the definition of "material participation." In other words, for most rental real estate activities, losses in excess of income are not deductible in the year incurred.

Exception for real estate professionals. If you qualify as a real estate professional, passive activity loss limits do not apply to the losses from your rental activities. As a real estate professional, losses may be deducted in the year incurred even if the losses are greater than income.

Qualifying as a real estate professional. You will qualify as a real estate professional if both the following requirements are met.

1) More than half the personal services you performed in all trades or businesses during the tax year were performed in real property trades or businesses in which you materially participated, and
2) You performed more than 750 hours of services during the tax year in real property trades or businesses in which you materially participated.

Personal services performed as an employee do not count unless you were a 5% or greater owner of the employer.

Real property trades or businesses include development, construction, acquisition, conversion, rental, operation, management, or brokerage of real property.

Note: If you work a full-time wage job (Form W-2), it is unlikely you would qualify as a real estate professional under (1), above, as you have to spend more time working in real estate than in any other work activity during the year. Both (1) and (2), above, must be met to qualify as a real estate professional.

Example: *For 2024, Henry works full-time (2,080 hours) as a software engineer. He also worked 800 hours managing his multiple rental properties. Henry does not qualify as a real estate professional, even though he exceeded the 750-hour requirement, because the 800 hours worked for his rental activity is not more than 2,080 hours worked for his full-time job.*

Material Participation

Material participation is defined as being involved in the activity on a basis that is "regular, continuous, and substantial." You will be considered to materially participate in an activity if:

1) You participated in the activity for more than 500 hours during the year,
2) Your participation in the activity constitutes substantially all of the participation in the activity of all individuals for the tax year, including the participation of individuals who did not own any interest in the activity,

continued

Real Estate Professionals

3) You participated in the activity for more than 100 hours during the tax year, and your participation was at least as much as any other individual for the year,
4) The activity is a "significant participation activity" for the year (more than 100 hours participation per activity with aggregate of 500 hours),
5) You materially participated in the activity for any five (whether or not consecutive) of the 10 immediately preceding tax years,
6) The activity is a personal service activity and you materially participated in the activity for any three preceding tax years, or
7) Based on all the facts and circumstances, you participated in the activity on a regular, continuous, and substantial basis during the year. This test is not met if you participated in the activity for 100 hours or less during the year. Managing the activity does not count for this purpose if any person other than you received compensation for managing the activity, or any other individual spent more hours during the year managing the activity.

Election to combine rental activities. For purposes of qualifying as a real estate professional, each of your rental activities are treated as separate activities unless you elect to treat all interests in rental real estate as a single activity. Failure to make the election can trigger passive loss limits for real estate professionals that do not materially participate in each activity. To make the election, you must file a statement with your original income tax return declaring that you are a qualified taxpayer for the taxable year and are making the election to treat all interest in rental real estate as a single rental real estate activity. The election is binding for the taxable year it is made and for all future years whether or not you continue to be a qualifying taxpayer. You may revoke the election only in the taxable year in which a material change in facts and circumstances occurs.

Example: *Leo is a real estate agent who spends more than 750 hours and more than 50% of his time selling real estate. He also owns several rental properties. As a real estate professional, in order for Leo to treat his rental properties as nonpassive activities, he would either have to pass the material participation rules for each separate rental property or elect to combine all rentals into one activity and meet the material participation rules as a group.*

Court Case: For over 20 years, the taxpayer had been involved in real estate properties. For the years at issue, the taxpayer aggregated all rental income and expenses as a single activity on his tax return, but did not attach an election to treat the activities as a single activity. The Tax Court stated that a taxpayer must clearly notify the IRS of the intent to make the election. Without treating the rental properties as one activity, the taxpayer was not able to meet material participation requirements. Net losses were treated as passive losses, and the deductions were not allowed under passive loss rules. (*May,* T.C. Summary 2005-146)

Special $25,000 Loss Allowance for Rental Real Estate

Regardless of passive loss rules, you are allowed to deduct up to $25,000 in losses from rental real estate if you actively participated in the activity. The special loss allowance begins to phaseout at incomes above $100,000.

Real estate professionals are not subject to the passive activity loss limits and can have losses in excess of the $25,000 special allowance.

Married Filing Separately. If you are married and filing a separate return, the maximum special allowance is $12,500 and phaseout begins at incomes above $50,000. If you lived with your spouse at any time during the year, the special allowance is not available.

Active participation. Active participation is not the same as material participation. You actively participated in a rental real estate activity if you and/or your spouse owned at least 10% of the rental property and made management decisions or arranged for others to provide services in a significant and bona fide sense. Management decisions may include approving new tenants, deciding on rental terms, approving expenditures, etc.

Contact Us

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- Significant change in income or deductions.
- Job change.
- Marriage.
- Attainment of age 59½ or 73.
- Sale or purchase of a business.
- Sale or purchase of a residence or other real estate.
- Retirement.
- Notice from IRS or other revenue department.
- Divorce or separation.
- Self-employment.
- Charitable contributions of property in excess of $5,000.

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TAX YEAR
2024

Sale of a Principal Residence

The Real Estate
ACCOUNTANT

Exclusion of Gain

Principal residence defined. A principal residence is your main home, which is the home where you ordinarily live most of the time. You can have only one main home at any one time.

Individual homeowners. Individuals can exclude up to $250,000 of gain on the sale of a home if three tests are satisfied.

1) **Ownership.** You owned the home for at least two years during the 5-year period ending on the date of sale,
2) **Use.** You used the home as a principal residence for at least two years during the 5-year period ending on the date of sale, and
3) **Two-year period.** You did not exclude gain from the sale of another home during the 2-year period ending on the date of sale.

If you are a co-owner, you must calculate gain or loss according to your ownership interest in the home and then apply the exclusion rules on an individual basis.

Married homeowners. Married couples can exclude up to $500,000 of gain on the sale of a home if:

1) **Joint return.** You, as a couple, file a joint return for the year,
2) **Ownership.** Either you or your spouse meets the ownership test, above,
3) **Use.** Both of you meet the use test, above, and
4) **Two-year period.** Both of you meet the 2-year period test, above.

If either of you do not meet all the requirements, you can exclude the total of the exclusions that each of you would qualify for if not married and the amounts were calculated separately. For this purpose, each of you is treated as owning the property during the period that either of you owned the property.

Ownership and Use Rules

The required two years of ownership and use during the 5-year period prior to the sale do not have to be continuous. The ownership test and the use test can be met at different times during the 5-year period. Short, temporary absences for vacations or other seasonal absences are counted as periods of use (even if the property is rented out during the absence).

Surviving spouse. A surviving spouse who does not remarry before the sale of a home is considered to have owned and used the home as a primary residence during the deceased spouse's ownership and use period.

The $500,000 exclusion applies to an unmarried surviving spouse provided the sale occurs not later than two years after the date of death of the deceased spouse, and the couple would have qualified for the $500,000 exclusion if the sale had occurred immediately before the date of death.

Home transferred from spouse. If you acquire a home in a transfer from your spouse (or former spouse if the transfer was incident to divorce) you are considered to have owned the home during any period of time your spouse (or former spouse) owned it.

Divorced individuals. You are considered to have used a home as a principal residence during any period when (1) you owned the home, and (2) your spouse or former spouse is allowed to live in it under a divorce or separation instrument and uses the home as a principal residence.

Inherited home. If you inherit a home you are generally not eligible for gain exclusion unless you meet the ownership and use tests for the inherited home.

Sale of a Principal Residence

Sale of Vacant Land Adjacent to Residence

The sale of vacant land is not treated as a sale of your principal residence unless:

- The vacant land is adjacent to your principal residence,
- You owned and used the vacant land as part of your principal residence,
- The sale of the principal residence satisfies the requirements for exclusion and occurs within two years before or after the sale of the vacant land, and
- The ownership and use requirements for the vacant land have been satisfied.

If these requirements are met, the sale of the principal residence and the vacant land are treated as one sale. Only one maximum limitation amount of $250,000 ($500,000 for eligible MFJ) applies to the combined sales.

Partial Maximum Exclusion of Gain

If you do not meet the 2-year ownership and use tests, or you have already excluded gain from the sale of another home during the 2-year period prior to the sale of a current home, you may claim a partial exclusion on the sale of a home if the primary reason for the sale is due to:

1) A change in place of employment of a qualified individual,
2) The health of a qualified individual, or
3) Unforeseeable events.

Qualified individual. For purposes of the partial exclusion, a qualified individual is you, your spouse, a co-owner of the home, or a person whose primary residence is the same as yours.

1) Change in place of employment. Employment includes the start of work with a new employer, continuation of work with the same employer, and the start or continuation of self-employment.

Distance safe harbor. A change in place of employment is considered to be the reason you sold a home if:

- The change occurred during the period the property was used as a principal residence, and
- The new place of employment is at least 50 miles farther from your home than the former place of employment was. If there was no former place of employment, the new place of employment must be at least 50 miles from the home that was sold.

2) Health. You can claim a partial exclusion if the primary reason for the sale is:

- To obtain, provide, or facilitate the diagnosis, cure, mitigation, or treatment of disease, illness, or injury for yourself or a family member, or
- To obtain or provide medical or personal care for yourself or a family member. The sale of a home is not because of health if the sale merely benefits a qualified individual's general health or well-being.

3) Unforeseeable events. The partial exclusion rules do not apply if the primary reason for the sale was a preference for a different home or an improvement in household finances.

Specific event safe harbors. Specific event safe harbors include the following.

- An involuntary conversion of the home.
- Natural or man-made disasters or acts of war or terrorism resulting in a casualty to the home.
- Events that apply to you or a family member include death, unemployment (if you or a family member is eligible for unemployment compensation), a change in employment or self-employment status that results in an inability to pay reasonable basic living expenses, divorce or legal separation, or multiple births resulting from the same pregnancy.
- Any event the IRS determined to be unforeseen.

Facts and circumstances. If you do not meet the specific event safe harbor rules you may still be able to claim a partial exclusion.

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TAX YEAR
2024

Rental Income and Expenses

The Real Estate ACCOUNTANT

Rental Income

Rental income includes any payment received for the use or occupancy of property. In addition to normal rent payments, the following items are reported as rental income.

Types of Rental Income	Description
Advance rent	Any amount received prior to the period that the payment covers.
Payment for cancelling a lease	Any amount paid by a tenant to cancel a lease.
Expenses paid by tenant*	Any amount paid by a tenant on behalf of the property owner to cover maintenance or improvement expenses.
Property or services**	The fair market value (FMV) of property or services received in lieu of rent.

All of these types of rent are reported as income in the year received.

* ***Example:*** Your tenant pays the cost to repair the furnace and subsequently deducts the amount from rent. You treat the cost of the repair as rental income and deduct the same amount as a rental expense for repairs and maintenance.

** ***Example:*** Your tenant paints the property instead of paying two months rent. You include the amount of rent your tenant would have paid in rental income and deduct the same amount as a rental expense for painting. If the services are provided at an agreed-upon price, that price is considered FMV unless there is evidence to the contrary.

Security Deposits

A security deposit is not included in rental income when received if you plan to return it to the tenant at the end of the lease. If any amount is kept during the year because the tenant did not live up to the terms of the lease, include that amount as rental income. If an amount called a security deposit is to be used as a final payment of rent, it is advance rent and is included as income in the year received.

Note: Individual states have laws requiring payment of interest by property owners who hold security deposits. Check state laws for more information.

Rental Expenses

A deductible expense is any expense that is both:

- ***Ordinary.*** Common and accepted in your line of work, and
- ***Necessary.*** Helpful and appropriate for work.

An expense need not be required in order to be considered necessary. Facts and circumstances must be considered in each case to determine whether an expense is ordinary and necessary.

Depreciation

Depreciation deductions begin when property is ready and available for rent.

Vacant Property

Expenses are deductible beginning at the time the property is available for rent regardless of when rental income is actually received.

Insurance Premiums Paid in Advance

Insurance premiums paid more than 12 months in advance are deducted in the year to which the policy applies. Premiums paid for 12 months or less are deductible in the year paid.

Local Transportation Expenses

Local transportation expenses incurred to collect rental income or to manage, conserve, or maintain rental property are deductible. You may deduct either actual expenses or the standard mileage rate for an auto (67.0¢ per mile for 2024).

Rental Income and Expenses

Commuting
IRS regulations for investment expenses specifically mention commuting expenses as being nondeductible, which means the same commuting rules that apply to business expenses also apply to passive rental activities.

Travel Expenses
Expenses for traveling away from home, such as transportation and lodging, are deductible if the primary purpose of the trip is to manage, collect rental income, conserve, or maintain the rental property.

Prepaid Interest
Prepaid interest is not deducted when paid. Instead, prepaid interest is deducted in the period to which it applies. Points or loan origination fees paid for rental property are deducted over the life of the loan.

Repairs and Improvements

Repairs	Improvements
Costs that: • Keep the property in good operating condition, • Do not materially add value to the property, or • Do not substantially prolong the property's life.	***Costs that:*** • Add to the value of the property, • Prolong the property's useful life, or • Adapt the property to new uses.
Deductible as a current expense.	Must be capitalized and depreciated.
Examples: • Repainting inside or out. • Fixing gutters. • Fixing damaged carpet. • Fixing leaks. • Plastering. • Replacing broken windows.	***Examples:*** • Room additions. • Remodeling. • Landscaping. • New roof. • Security system. • Replacing gravel driveway with concrete.

Example: *Ashlyn's rental property has damage to a small section on one corner of the roof. If she fixes only that small portion of the roof, she can deduct the cost of the repair as a rental expense. However, if she replaces the entire roof, the new roof is an improvement because it increases the value and lengthens the life of the property. She would depreciate the cost of the new roof.*

The cost of repairs to a rental property may be deducted as a current expense. The cost of improvements must be recovered through depreciation. Whether an expenditure qualifies as a currently deductible repair, or is required to be capitalized and depreciated, is a factual determination. You bear the burden of proof and must have sufficient records to substantiate the expense as a deduction instead of a capital expenditure.

Personal Use of Rental Property— Roommates and Boarders

Renting Part of Property
If a portion of property is rented out, and a portion is used for personal purposes, any reasonable method of allocating expenses between personal and rental use is allowed. For example, dividing the cost of utilities by the number of people living in the home, or dividing expenses based on square footage of use, are reasonable methods.

Example: *Phil owns and lives in a personal residence that has 1,800 square feet of floor space. Phil takes in a boarder and rents out a room for the entire year that is 12 × 15 feet, or 180 square feet. Phil can allocate 10% of the home's expenses to the rental. The total utility bills for the year are $2,700. Phil can deduct $270 ($2,700 × 10%) from rental income.*

Phone Expense
The cost of the first phone line into a home that is used for both personal and rental purposes is not deductible.

Direct Rental Expenses
A full deduction is allowed for expenses that belong only to the rental part of the property. Examples of fully-deductible rental expenses include painting a room that is rented out, additional liability insurance attributable to the rental, and the cost of a second phone line that is strictly for the tenant.

Rented 14 Days or Less
If you rent out your home, or a portion of your home, for 14 days or less, rental income is not reported and expenses are not allowed.

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Short-Term Rentals

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Short-Term Rentals

Income and expenses related to rental of your home, a room in your home, or a vacation home, must be reported on your tax return. Expenses may need to be divided between rental and personal use. Limits apply when deducting rental expenses for a home that is also used for personal purposes.

If you rent out part of your home for 14 days or less, the rental income may be tax free. See *Tax-Free Rental Use—14 Days or Less,* later.

Rental Property Also Used as Home

If property is used for both personal and rental purposes, all rental income must generally be reported on your tax return. However, expenses must be allocated between personal and rental use.

If rental expenses exceed rental income, the ability to deduct a loss on your tax return depends on whether the property met the definition of a "home" for tax purposes. If the property was used as a home, the property is considered to be "mixed-use property," and the deduction for indirect expenses like insurance and utilities is limited to rental income. Disallowed expenses are carried over to the next tax year, and the limit still applies even if you did not use the property as a home for that year. If the property had minimal personal use and is considered rental property, an excess of expenses compared with income can generate a loss on your tax return.

You use a property as a home during the year if you use it for personal purposes more than the greater of:
- 14 days, or
- 10% of the total days it is rented to others at fair rental value.

Example: *Andrea has a vacation cabin that she used for personal purposes for 17 days and rented out for 160 days during the year. The cabin is considered to be used as a home because she used it for personal purposes more than 14 days. This means the cabin is considered mixed-use property, and Andrea's deduction for expenses is limited to rental income. If Andrea had used the property personally for 14 days or less, the cabin would be considered rental property (not mixed-use) and she would be able to deduct a loss if rental expenses exceeded rental income.*

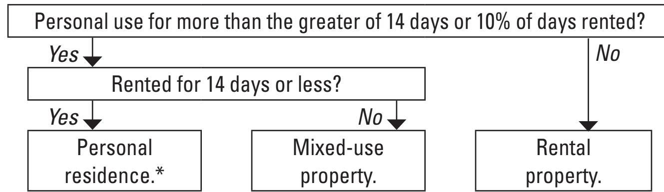
Note: Although all rental income must generally be reported on the tax return, expenses must be allocated between personal use and rental regardless of whether the property is considered mixed-use or rental property.

Personal use. Personal use of a dwelling includes not only use by your family or other owners, it also includes use by anyone who pays less than fair rental value for use of the property.

Example: *Emma and her neighbor are co-owners of a condominium. Last year, Emma rented the unit to vacationers for 156 days. Emma's neighbor used the unit for 14 days during the year, and Emma did not use it at all. Because Emma's neighbor is an owner of the property, the neighbor's use is considered to be personal use, and expenses must be allocated accordingly. Because the property was not used for personal purposes more than 14 days or 10% of the number of days it was rented at fair rental value, the property is not considered mixed-use, and a loss can be reported on the tax return if rental expenses exceed rental income.*

Short-Term Rentals

How to Classify Rental Property for Tax Treatment



* Rental income not reported, expenses not allowed, report real estate taxes and qualified mortgage interest as itemized deductions on Schedule A (Form 1040).

Loss allowed. For mixed-use property, the rental portion of mortgage interest, real estate taxes, and other direct rental expenses such as advertising are allowed in full and can create a deductible loss.

Tax-Free Rental Use—14 Days or Less

If you use property as a home and rent it out for 14 days or less during the year, you are not required to report the rental income and expenses. Expenses such as mortgage interest and real estate taxes that are allowable as itemized deductions on your tax return are still deductible.

Example: *A major golf tournament comes to town and Mark rents his home out for the six-day duration of the tournament. He does not rent out his home for any other time during the year. The rent he receives for the six-day period is tax-free to Mark and is not required to be reported on his tax return.*

Providing Substantial Services

If you provide substantial services to renters such as cleaning, changing linens, housekeeping service, guest tours, or meals and entertainment, the rental activity is considered a business and the net income is subject to self-employment taxes in addition to income tax. Substantial services do not include providing heat and light, internet, cleaning of common areas, or trash collection.

For example, if you rent a room in your home and provide breakfast or other meals for your tenant, you may be providing substantial services. Discuss this with your tax advisor for more information.

Renting Part of Personal-Use Property

If you have a portion of personal-use property (including a vacation home) that you rent out, you must divide your expenses between rental use and personal use, as though you had two separate pieces of property. You can deduct the expenses related to the part of the property used for rental purposes, such as home mortgage interest, and real estate taxes, as rental expenses. You can also deduct the rental portion of some expenses that would otherwise be nondeductible personal expenses, such as expenses for electricity or painting the outside of the house. For expenses directly related to the rental, such as painting a room that you rent out or paying liability insurance directly related to renting out a room, the entire cost of the direct expense is deductible. See your tax advisor for information about deducting depreciation on your rental property and any furniture used in the rental activity.

Example: *Julie lists her spare bedroom on a popular short-term rental website. The spare room is 300 square feet and her whole house is 1,500 square feet. She has the following expenses this year.*

- *Repainting the spare room $300*
- *Replacing the broken door in the spare room $150*
- *Real estate taxes and mortgage interest........ $6,500*
- *Internet, electricity, gas, water $2,650*

Expenses for painting and replacing the door in the spare room are direct rental expenses and are fully deductible.

Expenses of $9,150 for real estate tax, mortgage interest, and utilities are not strictly for the rental portion of Julie's house and must be prorated. Prorating by square footage is a common method, which would be 20% (300/1,500). $1,830 ($9,150 × 20%) of the expenses for the entire house are deductible as rental expenses. Julie can deduct the remaining real estate taxes and mortgage interest as itemized deductions on Schedule A (Form 1040). The remaining expenses for utilities are considered personal expenses and are not deductible.

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Like-Kind Exchanges

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Like-Kind Exchanges

Like-kind exchanges (also called 1031 exchanges) are when you exchange real property used for business or held as an investment solely for other business or investment property that is of the same type or "like-kind" in a single transaction. Generally, if you make a like-kind exchange, you are not required to currently recognize gain or loss as any gain or loss is deferred until you sell or otherwise dispose of the property received in the exchange. However, if you also receive other non-like-kind property or money (boot) as part of the exchange, you will recognize gain.

To be a like-kind exchange, the property traded and the property received must be both qualifying property and like-kind property.

Mandatory rules. The like-kind exchange rules are mandatory. A taxpayer who sells property and buys similar property in two mutually dependent transactions may have to treat the sale and purchase as a single nontaxable exchange unless the transactions are structured to avoid the like-kind exchange rules. This may be something to consider for a property that has accumulated passive activity losses.

Qualifying Property

The like-kind exchange rules apply only to exchanges of real property and do not apply for personal property. Both the real property given up and the real property received must be held for productive use in your trade or business or for investment purposes.

Excluded property. Like-kind exchange rules do not apply to exchanges of the following property.
- Property used for personal purposes, such as a home.
- Vacation home held for appreciation but used for recreation (not considered investment property).
- Real property held primarily for sale (such as inventory).
- Any personal property (e.g., machinery, equipment, vehicles) or intangible property (e.g., patents, intellectual property).

Like-Kind Property

Properties are of like-kind if they are of the same nature or character, even if they differ in grade or quality. Real properties generally are of a like-kind, regardless of whether they are improved or unimproved. For example, an apartment building would generally be like-kind to a shopping center.

Real Property	
Like-Kind Exchange	*Not a Like-Kind Exchange*
• City property for farm property. • Improved property for unimproved property. • Real estate owned for a real estate lease that runs 30 years or longer. • Remainder interest in real estate for a remainder interest in other real estate, if nature or character of the two property interests is the same.	• Real property for personal property. • Life estate expected to last less than 30 years for a remainder interest. • Real property in the United States for foreign real property outside the United States.

Real property. Real property generally includes property classified under state and local law as real property. Real property also includes, but is not limited to, land and improvements to land, inherently permanent structures affixed to real property, structural components, and natural products.

Like-Kind Exchanges

Gain Recognized

In a like-kind exchange, realized gain is the excess of the fair market value (FMV) of the property received over the adjusted basis of the property given up. All, part, or none of the gain realized may be recognized (included in taxable income) in the year of the exchange. If the like-kind exchange involves the receipt of money or unlike property or the assumption of liabilities, some gain may be recognized.

Money paid. If, in addition to giving up like-kind property, you pay money in a like-kind exchange, you will not recognize gain or loss. Your basis of the property received is the basis of the property given up, increased by the money you paid.

Example: *Dan trades an unimproved lot for an improved lot from his neighbor. The FMV of the new lot is $30,000. The FMV of the old lot is $8,000. Dan transfers the old lot to his neighbor plus $22,000 cash. The transaction qualifies as a like-kind exchange and Dan has no recognized gain or loss. Dan's adjusted basis of the old lot is $6,000. His basis in the new lot is $28,000 ($6,000 plus the $22,000 cash paid). If Dan had sold the old lot to a third party for $8,000 and bought the new one from his neighbor, he would have recognized a $2,000 gain on the sale of the old lot ($8,000 minus $6,000 adjusted basis).*

Money or unlike property received (boot). If you realize a gain on the exchange, gain must be recognized to the extent of the boot received. A loss is not deductible in an exchange in which you receive boot. Your taxable gain is the lesser of:

- Realized gain, or
- Cash and FMV of unlike property received reduced by closing costs.

Example: *Willy's adjusted basis in real property held for investment purposes is $180,000. He exchanges the property for another real property with a FMV of $200,000. He receives an additional $10,000 in cash and pays $5,000 in closing costs on the transaction. Willy's total gain realized is $25,000 ($200,000 FMV – $180,000 basis + $10,000 cash received – $5,000 closing costs). However, only $5,000 ($10,000 cash received – $5,000 closing costs) must be recognized on his income tax return.*

Liabilities assumed. If one party in a like-kind exchange assumes liabilities (such as a mortgage) of the other party, the party that is relieved of liability is treated as receiving cash in the amount of the liability.

Unlike property given up. If unlike property is given up in a like-kind exchange, the party who gives up the unlike property must recognize gain or loss on the unlike property.

Deferred Exchanges

A deferred like-kind exchange occurs when replacement property is received after the transfer of property given up. To qualify, the transaction must be an exchange of property for property rather than a transfer of property for money used to buy replacement property. Deferred exchanges must meet the 45-day identification period and 180-day receipt requirements. If, before receiving replacement property, you actually or constructively receive money or unlike property for the exchanged property, the transaction will be treated as a sale rather than a deferred exchange. One method to avoid actual or constructive receipt in a deferred exchange is to use a qualified intermediary.

Related Parties

If you engage in a like-kind exchange with a related party and, within two years either of you dispose of the property received, the previously deferred gain is recognized at the time of the disposition. A related party includes your spouse, child, grandchild, parent, grandparent, brother, sister, or a related corporation, S corporation, partnership, trust, estate, or tax-exempt organization.

An exception applies for transactions that do not have a purpose of tax avoidance.

Contact Us

There are many events that occur during the year that can affect your tax situation. Preparation of your tax return involves summarizing transactions and events that occurred during the prior year. In most situations, treatment is firmly established at the time the transaction occurs. However, negative tax effects can be avoided by proper planning. Please contact us in advance if you have questions about the tax effects of a transaction or event, including the following:

- Pension or IRA distributions.
- Significant change in income or deductions.
- Job change.
- Marriage.
- Attainment of age 59½ or 73.
- Sale or purchase of a business.
- Sale or purchase of a residence or other real estate.
- Retirement.
- Notice from IRS or other revenue department.
- Divorce or separation.
- Self-employment.
- Charitable contributions of property in excess of $5,000.

This brochure contains general information for taxpayers and should not be relied upon as the only source of authority. Taxpayers should seek professional tax advice for more information.

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