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Valuable Information for Real Estate Professionals and their Clients

MULTIPLE-ASSET EXCHANGES

WHAT IS A MULTIPLE-ASSET EXCHANGE?

A multiple-asset exchange occurs when a taxpayer is selling property that consists of more than one type of asset. Often a taxpayer can combine more than one type of tax shelter in an effort to lessen their tax liability.

On February 14, 2005, the IRS issued Revenue Procedure 2005-14, allowing for taxpayers to utilize the combination of Section 121 and Section 1031 to a single exchange of property. This ruling allows taxpayers to sell multiple-asset properties and apply both the exclusion of gain from the sale of a primary residence and the nonrecognition of gain from the sale of like kind property held for productive use in a trade of business or for investment purposes.

For example, a taxpayer selling a fourplex, where they live in one unit and rent out the remaining units may combine their Section 121 primary residence exclusion with a Section 1031 exchange and receive excellent tax advantages. Other examples of multiple-asset exchange properties include:

- ▶ Farm or ranch property
- ▶ A home which includes a home office
- ▶ Home with surrounding bare land
- ▶ Duplex in which one unit is owner occupied
- ▶ Hotel with adjacent owners quarters

WHAT ARE THE BENEFITS OF IRC SECTION 121?

The 1997 Taxpayer Relief Act provides homeowners with tremendous tax benefits on the sale of a primary residence. IRC Section 121 allows a taxpayer to exclude capital gain taxes on the sale of their primary residence every two years if they meet the following requirements:

- 1) Couples filing a joint tax return can exclude up to \$500,000 of capital gain on the sale of their primary residence, and single taxpayers can exclude up to \$250,000.
- 2) The home must have been the primary residence of both spouses for twenty four of the last sixty months.

ALLOCATION OF MULTIPLE-ASSET PROPERTIES

Tax and/or legal advice is vital to appropriately allocate the portion of the property utilized as a primary residence, along with the remaining units held for investment.

In *Sayre v U.S.*, the court ruled that any reasonable allocation would be acceptable. Factors such as relative square footage may be used in determining an allocation to the primary residence portion. A legal land split or survey is not required to allocate value to these types of properties. An appraisal, or market analysis, is another commonly used tool by professionals when determining what percentage is considered the primary residence.