

## Tax Savings Report

Eric Sample | Five Single Family Houses Various Addresses California 900000

**\$216,000.00**

SAVED BY EXCHANGING

**\$68,000.00**

FUTURE SAVINGS

### SAVINGS FROM EXCHANGING

Cash Add		\$79,000.00
15% Capital Gains Tax		\$65,000.00
State Tax		\$33,000.00
1250 Recapture Tax		\$21,000.00
3.8% Medicare Tax		\$18,000.00
<b>Subtotal</b>		<b>\$216,000.00</b>

### FUTURE SAVINGS

Excess Depreciation		\$62,000.00
Cost Segregation		\$6,000.00
<b>Subtotal</b>		<b>\$68,000.00</b>

TOTAL ESTIMATED TAX SAVINGS **\$284,000.00**

### WHAT THESE SAVINGS MEAN

Your tax savings fall into two categories: **Savings from Exchanging** are the immediate tax benefits from selling your relinquished property and completing a 1031 exchange. **Future Savings** represent the ongoing tax benefits from income generated by your replacement properties, including deductions that offset future income. We believe these deferred benefits are often even more valuable than the immediate tax savings from the exchange itself.

- ✓ **Cash Add:** If the new property you are buying as a replacement didn't have enough debt, you may have added cash to replace this shortfall and avoid additional debt. We have determined the amount of boot that you would have had without adding cash and have applied your average tax rates to determine your estimated tax saved from adding cash. You may have added cash to an exchange with out knowing it. Often times when you sell a property you may get refunds of Escrow impounds from the lender and items you previously paid but should have been paid by the buyer. When DSTs are sold you often get refunds of money that was previously held as reserves. If you added cash simply to buy more property, your tax savings may be reflected in the Taxes Saved from Excess Depreciation section.
- ✓ **15% Capital Gains Tax:** There is actually four capital gains tax rates. The first level is the 25% recapture of depreciation level. After depreciation recapture depending on your income there are 0% and 15% tax brackets. When you get above a certain level the tax rate goes from 15% to 20%. Here we are showing the savings from both the 0% and 15% tax brackets.
- ✓ **State Tax:** Here is the tax saved on your state tax. This is only tax saved from the exchanging and not selling. In other section of this report you will see future tax savings, for example excess depreciation and cost segregation are future tax savings. When we compute these tax savings we use a combined Federal and State tax rate.
- ✓ **1250 Recapture Tax:** If you sold without exchanging, your tax could be computed using several different rates. The rate for this particular tax is 25%. Depreciation recapture tax is designed to make you pay back tax benefits you received in the past from depreciation. To determine the amount of tax saved, we have taken the amount of depreciation from your relinquished property and multiplied it by 25%. We have reduced this amount by whatever recapture tax you paid on boot.
- ✓ **3.8% Medicare Tax:** If you think about it at all you probably think Medicare tax is wages, not your rental income or capital gains. Beginning in 2013 if your income is high enough you trigger a 3.8% Medicare tax. A real estate professional has an exclusion. The issue is a lot more people think they qualify as a real estate professional than actually qualify. It is very likely that if you sell and don't exchange or take a large amount of taxable boot you will be subject to this tax.

**WHAT THESE SAVINGS MEAN (CONTINUED)**

---

- ✔ **Excess Depreciation:** When you exchange your real estate investments for new ones, you often buy more than you sold. This leads to new basis that we call "excess basis." "Basis" is a tax term that basically means adjusted cost. This excess basis will give you more depreciation, which saves taxes. We have calculated the amount of depreciation you will get from this excess basis over the next 10 years, and we have applied your estimated average tax rate to determine the approximate amount of tax you will save from this excess basis over the next 10 years.
- ✔ **Cost Segregation:** If we used cost segregation on your replacement DSTs, we gave you an estimate of how much tax you would save. Now that your exchange is completed, we have calculated a much more accurate number for the additional depreciation that cost segregation will give you in the first five years. Using this number, we have applied your estimated average tax rate to determine the approximate amount of tax you will save from the cost segregation work we did. Please note that these saving are in addition to the taxes saved from excess depreciation.