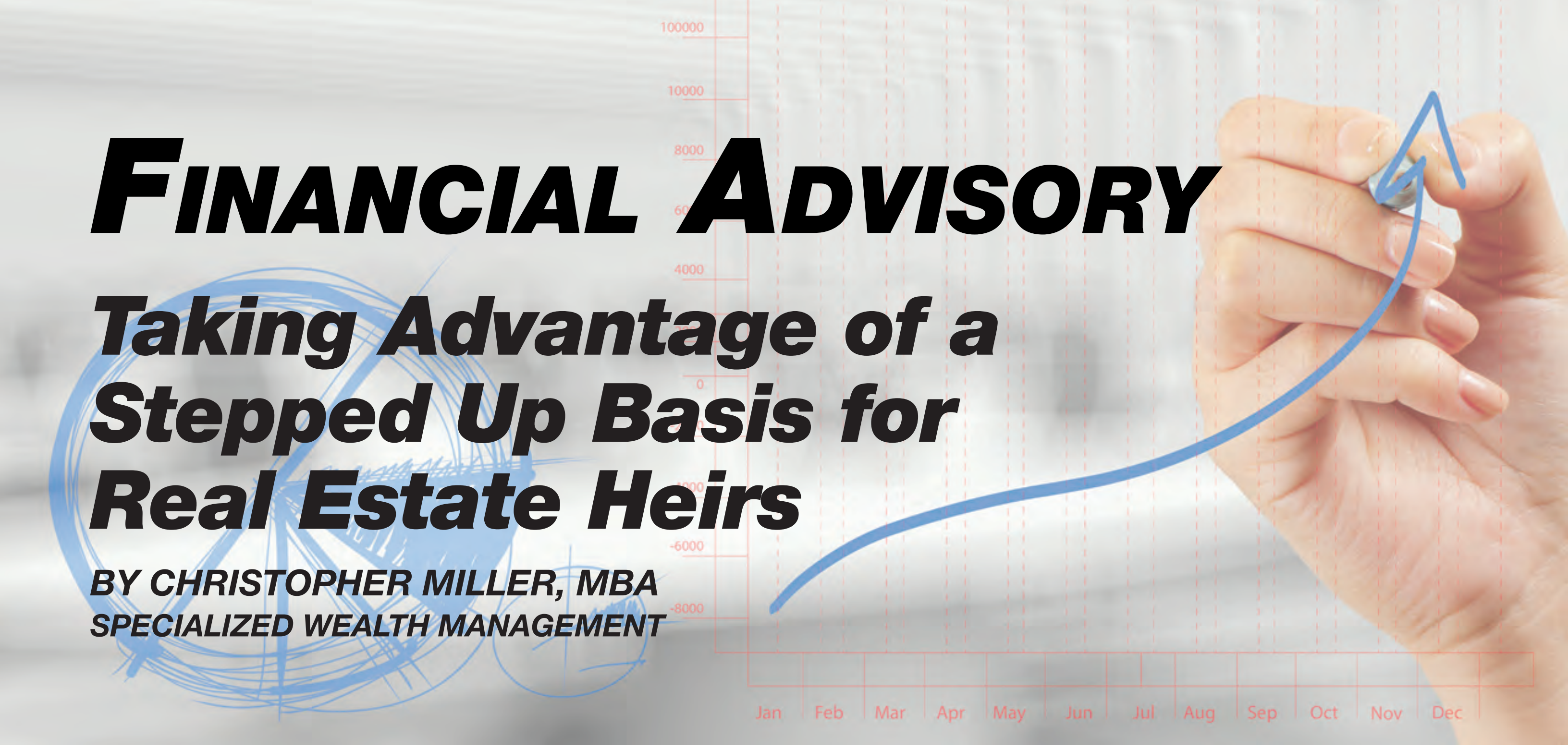

FINANCIAL ADVISORY

Taking Advantage of a Stepped Up Basis for Real Estate Heirs

BY CHRISTOPHER MILLER, MBA
SPECIALIZED WEALTH MANAGEMENT

As my readers know, I do 1031 Exchanges mostly into partial interest properties. Recently, one of my clients' DST investments prepared to sell at a great profit and he asked me about doing another 1031 Exchange. My advice surprised him:

> ***"In your case – let's NOT do a 1031 Exchange."***

I knew that his wife had passed away earlier this year, so I recognized substantial benefits could be realized by foregoing an exchange and "taking the cash." A consultation with his CPA confirmed that, in his case, there are great benefits to not exchanging. In fact, his CPA called me a "genius." (A story that I love repeating.)

THE STEPPED UP BASIS

When someone dies, their property will pass to their heirs. At that time, their heirs receive a "stepped up basis." If the deceased had originally purchased real estate, art, stock or any other assets at 10% of their value today – all those "potential" capital gains taxes waiting for him died when he did. For tax purposes, the purchase price for his heirs is the value of his assets when he died. So they could sell his assets the very next day and pay zero capital gains tax.

WORKS FOR DEPRECIATION, TOO

In the case of real estate, the stepped up basis applies to depreciation as well. Investment real estate owners enjoy depreciation deductions every year that they own property. A record of this deduction is kept and called "accumulated depreciation." If our investor sells his property and does not do a 1031 Exchange, he will need to pay a tax on his total depreciation benefits.

Upon an investor's death, however, the stepped up basis means that this tax will disappear. More

Please turn to page 64

Christopher Miller is a Managing Director with Specialized Wealth Management and specializes in tax-advantaged investments including 1031 replacement properties. Chris' real estate experience includes work in commercial appraisal, in institutional acquisitions for a national real estate syndicator and as an advisor helping clients through over four hundred 1031 Exchanges. Chris has been featured as an expert in several industry publications and on television and earned an undergraduate business degree and an MBA emphasizing Real Estate Finance from the University of Southern California. Chris began his real estate career in 1998. Call him toll-free at (877) 313 – 1868.

Continued from page 63

importantly, one's heirs can start depreciating the new value of the property. This is very important – it means that even fully-depreciated real estate can yield substantial tax benefits to one's heirs.

BUT YOUR INVESTOR IS STILL ALIVE – HOW DOES THIS BENEFIT HIM?

If you are in a community property state like us in California, this stepped up basis applies to an entire estate after the death of one spouse. When my client's wife passed away, he can tell the IRS that the new value of this property is as of the date of her death. When the asset sells, his taxes due will be negligible – the result of only "a few months" of ownership. He intends to buy another investment property with the proceeds to continue his income and growth potential. When he does this, he will be able to begin taking a depreciation deduction based on the full purchase price of his new property. This investor enjoyed a substantial gain on his principal, so his income and growth potential will be based on a larger investment. He could also enjoy much larger depreciation deductions as well.

> ***"In the case of real estate, the stepped up basis applies to depreciation as well."***

THE RESULTS

By following this plan, my investor can take advantage of the stepped up basis to eliminate all the taxes on capital gains and accumulated depreciation that he accumulated throughout his lifetime. At the same time, we can create a new depreciable basis for him as well. Since the IRS will treat this investment as a "new cash purchase," (which it is), my client can begin taking depreciation deductions based on the full purchase price of the property that is attributable to improvements. My estimations show that his depreciation deductions can now defer taxes on 123% of the income from his new purchase. This means that tax on all his income from this property will be deferred, and that extra 23% can go towards tax savings on his other properties.

In this instance, I was able to use my knowledge of real estate tax law to create substantial tax benefits for my client. This is how I try to help all of my investors. If you have any questions, my office number is (877) 313-1868.

Securities offered through Emerson Equity LLC, member FINRA/SIPC. Emerson Equity LLC and Specialized Wealth Management are not affiliated. All investing involves risk. Always discuss potential investments with your tax and/or investment professional prior to investing. Hypothetical scenarios herein are provided to illustrate mathematical principals only, and they are not a promise of performance. There can be no assurance that any investment strategy will achieve its objectives.