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From: Joe Mierendorf, Sue Cobb, and Mark Reed

RE: **Buying and Selling Real Estate***

Buying a piece of rental real estate can be a very good investment, especially if the purchase is designed to take advantage of available tax breaks. If you are buying a property with an existing building, we recommend that you talk to us about allocating the purchase price before the purchase documents are signed.

There are components of the real estate purchase that deserve special attention and earn quicker expense deductions: land improvements, including sidewalks, fences, and landscaping; and interior items, such as removable shelves, appliances and furniture. As you probably know, the cost of the land itself is not deductible, so it's easy to see that we don't want to allocate any more cost to the land than necessary. It is important to stipulate the cost breakdown on a purchase so that both buyer and seller are in agreement.

If you are constructing a building, the documents prepared by the builder will enable us to separate the building costs into the proper categories. It is especially helpful if we can communicate with the builder to help him understand our goals in cost segregation.

Several years down the road, you may have an opportunity to sell your rental real estate, but you don't want to pay capital gains tax. If you still want to be in the rental business, we recommend considering a tax-free exchange (called Section 1031 after the IRS code section.) This provision of the IRS code allows the seller to "roll-over" the profit into another rental property, and to defer the gain until this replacement property is sold.

The process is fairly straightforward, but there are rigid timelines to follow. The transfer requires the services of a "qualified intermediary" who acts as your agent to sell the first property and acquire the second. This person holds the cash proceeds from the first sale until the closing of the replacement property. It sounds complicated, but is as simple as signing a few more forms and perhaps having another body at the closing table.

The timeline is as follows: the seller has 45 days after the sale of the first property to "designate" in writing the replacement property. This designation is specific as to address and description. Then, within the next 135 days, the purchase must be completed. This is a total of 180 days from start to finish.

This Section 1031 process can also be used with other types of investment property. If you are considering buying or selling real estate, let us help you take advantage of all the available provisions of the tax code.

*Other memos include:

Cash Flow Issues
Job Cost Identification
QuickBooks® and Peachtree® Training

Exit Strategies
Business Valuation
Detecting Fraud