

Problem

Finance



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BUSTER**

Property exchange could be defined as the acquisition of a property in exchange of an equally valued property in a different location. The choice of the property exchanged lies completely on the owner of the initial property. Following the sale of the property at \$600,000 the realized gain would be calculated by deducting from the initial cost of purchasing the property. The realized gain would therefore be arrived through deducting the property cost from the realized amount.

$$\begin{aligned}\text{Realized gain} &= \$600,000 - \$375,000 \\ &= \$225,000\end{aligned}$$

The internal revenue code of the United States federal income tax stipulates that recognized gains arise from additional facilities that might be available within a specified lot. The property in question here does not have any elements related to trade and profit, therefore the owners of the property did not receive any recognized gains.

The tax basis for the property under discussion would be such that the owners would be accorded tax-free treatment. Section 1031a of the internal revenue code identifies the basis applicable to a property being exchanged (IRS). The property under discussion here could be treated as tax free because of acquisition within the specified duration of time. The tax basis imposed on properties by the United States tax laws would be excluded in this property. The regulation offers a 45 day period of identification of an exchange property, and 180 day period for acquisition of the property. Since the property under discussion fully complied with these stipulations, the property would receive tax-free treatment. The owners of the new property would not be required to remit any taxes on the new property.

Reference

IRS. "Basis of Assets." Publication 551 (2012): 2-10.