

CLIENT REPORT

Like-Kind Exchanges of Principal Residence

Dear Client:

Your home could qualify for like-kind exchange treatment and save you tax dollars. The IRS has issued guidance regarding the application of the home sale exclusion and the like-kind deferral to a single exchange of property. In the event you are considering selling either your home that has also been used for business purposes or a rental property that was once used as a home, these provisions may apply to your situation.

As you may know, you may exclude up to \$250,000 (\$500,000 for certain joint returns) of gain from the sale or exchange of your home. To qualify for this home sale exclusion, you must have owned and used the property as your principal residence, for periods aggregating two years or more, during the five-year period ending on the date of the sale or exchange, and must not have used the exclusion (with certain exceptions) during the two-year period ending on that date.

In addition, you may defer gain from the sale or exchange of property held for productive use in a trade or business provided you comply with the rules applicable to like-kind exchanges. To qualify for like-kind treatment, both the property you give up and the property you receive must be held by you for investment or for productive use in your trade or business.

While property used solely as your home is not business property, you may have a home office or other business uses for your home. The home-sale exclusion does not apply to the portion of the home on which depreciation has been deducted. That other business portion of the home not qualifying for the home-sale exclusion may qualify for a deferral of gain if like-kind property is acquired. Similarly, in the event you plan on exchanging a rental property that was once used as your principal residence, you may qualify for both the home sale exclusion and the like-kind deferral.

If you would like additional information on the home sale exclusion and a like-kind exchange on the same property, or if you feel that you may have a transaction that may qualify for this tax treatment, please contact our office at your convenience so that we may discuss this development in greater detail.

Sincerely yours,

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