

REAL ESTATE



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Q If I sell property used both as a principal residence and as a rental property (on which depreciation has been claimed) can I do a like-kind exchange?

A Yes. When a property is both a principal residence and an investment property, individuals may defer gain and pull out cash tax free.

If the property is simply sold and the exclusion under Section 121 (\$500,000 joint, \$250,000 single) used, gain is recognized to the extent depreciation has been taken. In a like-kind exchange of real property under Section 1031, gain is recognized to the extent of any cash received.

If both requirements of Sections 121 and 1031 are satisfied, all gain, even the amount attributable to previously taken depreciation, is deferred. And cash received is recognized only to the extent it exceeds the amount excluded under Section 121.

The result is actually more favorable than if either statute were applied by itself.