Huntsman Properties

Investor Capital Gains Information - May 2025

Many property owners are familiar with termites, tenants and trash. Often they become so burdensome that investors decide they want out of real estate altogether. At that point however, investors become all too familiar with another "T" —Taxes!

Federal taxes increased for high income earners in 2013 and owners who decide to sell an investment property are likely subject to the following Federal tax rates (based on modified adjusted gross income):

Individual	Married	Capital Gains
<200K	<250K	15%
200-400K	250-450K	15%
400K+	$450K+	20%

Medicare Surtax: In addition to increased federal capital gains tax rates, The Health Care and Education Reconciliation Act of 2010 added a 3.8% Medicare Surtax on capital gains. The 3.8% surtax only applies to individual taxpayers with income over $200K or joint taxpayers with income over $250K.

State Taxes: May also apply depending on which state the property is sold in. For property sold in CA, the state tax typically ranges anywhere between 9.3% - 13.3%, depending on income levels.

Calculating the tax bill upon the sale of a property requires a firm understanding of some basic principles. The first thing to understand is how to calculate the Adjusted Basis.

Formula	Example
Net Purchase Price	$500,000
(Depreciation)	($100,00)
+ Capital Improvements	+ $25,000
Adjusted Basis	**$425,000**

Once the Adjusted Basis is figured, calculating the gain is simple:

Formula	Example
Net Sales Price	$1,000,000
(Adjusted Basis)	($425,000)
Gain	**$575,000**

Tax computations can then be made by using the applicable tax rates:

Tax	Formula
Federal Capital Gain	20% * (Gain - Depreciation)
Medicare Tax	3.8% * Gain
CA State Tax	9.3% * Gain
Depreciation Recapture Tax	25% * Depreciation

After consideration, you may decide to either sell outright, or do a 1031 exchange.

Julia Huntsman, Broker

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Consult your tax or legal professional for advice for your specific circumstances. Information courtesy of Asset Exchange Company.

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Many property owners make the mistake of holding on to their real estate for too long. Prudent investors know that it is time to sell their real estate when:

1. Depreciation benefits are minimized or depleted
2. The property becomes a burden to manage

Keep in mind, selling now does not necessarily mean you'll be stuck with a huge tax bill. The IRS has given real estate investors a way to defer taxes on the sale of investment real estate via Section 1031 of the Internal Revenue Code.

Call me today at 562-896-2609 and I can prepare a market analysis on your investment property at no cost or obligation, and also discuss ways to maximize your returns all while avoiding taxes.

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