



Calculating Capital Gains on Real Estate

In the process of selling a business, a business broker may also be involved in the transfer of the real estate utilized by the business. As with a business transfer, there will be tax consequences involved in the transfer of real property. It is not the business broker's role to advise his seller client on tax matters of any nature. However, a business broker should have a working knowledge of capital gain taxes and the potential impact on the transaction.

How to Calculate Gain and After-Tax Proceeds

Step 1. Calculate the Adjusted Basis

Net Purchase Price
- Depreciation
+ Capital Improvements
Net Adjusted Basis

Step 2. Calculate the Gain

Net Sales Price
- Net Adjusted Basis
- Selling Expenses
Gain

Step 3. Calculate the taxes

Federal Capital Gain at 15%
Depreciation Recapture at 25%
State Capital Gain at _____%

Total Taxes Due _____

Step 4. Calculate the After-Tax Proceeds

Sales Price
- Mortgage Loan Balance
- Selling Expenses
- Total Taxes Due
Total After – Tax Proceeds _____

The seller will have to pay the capital gains taxes or employ a tax deferral method such as a 1031 exchange. It is vital that the seller and the business broker understand the tax ramifications of a transfer of real estate before taking the business and real property to market.