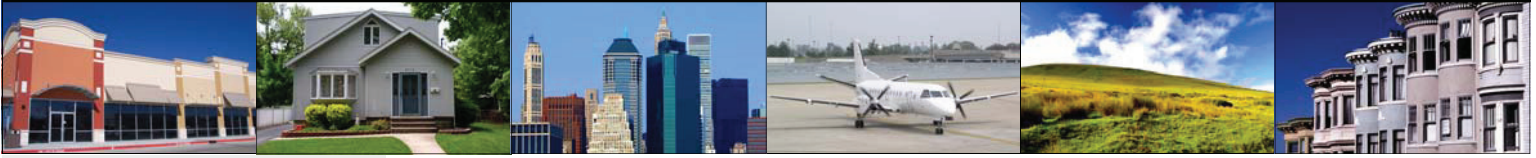


CLOSING COSTS

"WHAT COSTS CAN BE CONSIDERED ACCEPTABLE EXCHANGE EXPENSES?"



Compliments of

The Greer-Preston Team;
Jim Greer
DRE# 01240616
Judy Preston
DRE#01074104

www.GreerandPreston.com
619-692-1628

Ascent Real Estate
410 Kalmia Ave
San Diego, CA 92101



A National IRC §1031 "Qualified Intermediary"

National Headquarters

800-282-1031

Eastern Region Office

866-394-1031

apiexchange.com

info@apiexchange.com

Template # 50

Asset Preservation, Inc. does not give tax or legal advice. The information contained herein should not be relied upon as a substitute for tax or legal advice obtained from a competent tax and/or legal advisor.

© 2006 Asset Preservation, Inc.

WHAT COSTS CAN BE DEDUCTED?

A frequently asked question is "What expenses can be deducted from the exchange proceeds without resulting in a tax consequence?" Although the IRS has not published a complete list of qualifying expenses, there are some rulings that provide general parameters. Brokerage commissions can be deducted from the exchange proceeds (Revenue Ruling 72-456). Other transactional costs may also be able to be deducted if they are paid in connection with the exchange. (Letter Ruling 8328011).

WHAT ARE "EXCHANGE EXPENSES?"

Transactional costs that are referred to as "exchange expenses" on Form 8824 are not specifically listed but should generally include costs that are:

A. A direct cost of selling real property, which typically include:

- Real estate commissions
- Title insurance premiums
- Closing or escrow fees
- Legal fees
- Transfer taxes
- Notary fees
- Recording fees

OR -

B. Costs specifically related to the fact the transaction is an exchange such as the Qualified Intermediary fees.

ITEMS THAT ARE NOT "EXCHANGE EXPENSES"

Although not a complete list, the costs related to obtaining the loan should not be deducted from the proceeds.

THESE "NON-EXCHANGE EXPENSES" INCLUDE:

- Mortgage points and assumption fees
- Credit reports
- Lender's title insurance
- Prorated mortgage insurance
- Loan fees and loan application fees

OTHER "NON-EXCHANGE EXPENSES" CAN INCLUDE:

- Property taxes
- Utility charges
- Association fees
- Hazard insurance
- Credits for lease deposits
- Prepaid rents and security deposits

These rough guidelines do not address every potential cost. Exchangers should review their specific transaction and closing costs with their tax and/or legal advisors.