



A frequently asked question is "What expenses can be deducted from the exchange 1031 properties 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).

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

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
- Loan acquisition fees (such as points, mortgage insurance, application fees, lender's title insurance, assumption fees, appraisal fees, hazardous waste/property inspections required by the lender)
- Lender's title insurance
- Prorated mortgage insurance

Other "non-exchange expenses" can include:

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

QUALIFIED INTERMEDIARY SERVICES NATIONWIDE

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