



All States 1031 Exchange Facilitator, LLC

Trust ■ Security ■ Experience

Handling like-kind exchanges of  
Real estate and personal  
Property nationwide

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## Closing Costs: What works?

What Costs Can be Considered Acceptable "Exchange Expenses?"

### What costs can be deducted?

One of our most frequently asked questions is "What expenses can be deducted from the exchange proceeds without resulting in taxable boot?" Although the IRS has not published a complete list of qualifying expenses, there are some rulings that provide a general guideline. Brokerage commissions can be deducted from the exchange proceeds (*Revenue Ruling 72-456*). Other closing costs may also be able to be deducted if they are paid in connection with the exchange (*Letter Ruling 8328011*).

### What are "Exchange Expenses?"

Transaction costs that are referred to as "exchange expenses" on Form 8824 are not specifically listed but should be generally included costs that are either a direct cost of selling real property or costs that are specifically related to the fact that property involved in the transaction is part of an exchange, which can include:

- Real Estate Commissions
- Title Insurance Premiums
- Closing or Escrow Fees
- Legal Fees
- Transfer Taxes
- Notary Fees
- Recording Fees
- Intermediary Fees

### Items that are not "Exchange Expenses"

Although there will always be questionable items not listed here, the costs related to obtaining the loan should not be deducted from the proceeds. These items very well may lead to taxable "boot". 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
- Property Taxes
- Utility Charges
- Association Fees
- Hazard Insurance
- Credits for Lease Deposits
- Prepaid Rents and Security Deposits

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

Call All States 1031 for a complimentary consultation regarding your specific investment objectives.

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