

Trades

Definitions

Basis	remaining tax cost in an asset
Realized Gain/Loss	Total economic gain/loss on a transaction
Recognized Gain/Loss	The portion that is taxable (or deductible) NOW
Deferred Amount	The portion postponed to a future year

Proceeds / Amount Realized

+ Cash received	(boot)
+ FMV of new assets received	(or services)
+ Liabilities assumed BY the buyer	(seller no longer owes = economic receipt)
- Selling costs paid	(commissions, legal fees)

Buyer's Basis in Acquired Asset

+ Cash paid
+ liabilities assumed by the buyer
+ FMV of services rendered to seller

Taxable vs. Deferred

Fully Taxable

Realized G/L	FMV of New Asset - Taxpayer's Basis
Recognized G/L	Same as Realized
Basis in New Asset	FMV of New Asset

Deferred

Realized G/L	FMV of New Asset - Taxpayer's Basis
Recognized G/L	\$0 (fully deferred)
Basis in New Asset	

If GAIN: NAFMV - Deferred Gain

If LOSS: NAFMV + Deferred Loss

Deferred w/ boot

Adjust NAFMV for boot	NAFMV = Trade Value - Boot Received
Realized G/L	NAFMV - Taxpayer's Basis
Recognized G/L	BOOT RULE

BOOT RULE: Recognized Gain = LESSER of Realized Gain OR Boot Received

If loss, REC = 0

Deferred Amount: Realized Gain - Recognized Gain

Basis in New Asset: NAFMV +/- Deferred Amount

Taxable vs. Deferred (cont)

gain = subtract

loss = add

Boot = cash or non-like-kind property received. Boot is ONLY taxable if there is a GAIN. If loss or break-even, recognized = \$0 regardless of boot.

Like kind exchange example

Juniper/Birch Exchange - Full Worked Example

Juniper trades real estate (basis \$800K, FMV \$1,000K) for Birch's real estate (FMV \$900K) + \$100K cash.

Juniper's Side:

Item	Amount	Notes
NAFMV received	\$900,000	FMV of Birch's land received
Boot received (cash)	\$100,000	
Realized Gain	\$200,000	\$900K + \$100K - \$800K basis
Recognized Gain (Boot Rule)	\$100,000	Lesser of \$200K realized or \$100K boot
Deferred Gain	\$100,000	\$200K - \$100K recognized
Basis in new land	\$800,000	\$800K NAFMV - \$100K deferred gain

Birch's Side:

Item	Amount	Notes
NAFMV received	\$1,000,000	FMV of Juniper's land
Cash paid out	(\$100,000)	Birch gives \$100K = reduces proceeds
Realized Loss	(\$300,000)	\$1,000K - \$100K - \$1,200K basis
Recognized Loss	\$0	Losses fully deferred in like-kind exchanges
NAFMV (adjusted)	\$900,000	\$1,000K - \$100K boot paid
Basis in new land	\$1,200,000	\$900K NAFMV + \$300K deferred loss

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QBI Deduction = LESSER of:

- (1) 20% × Qualified Business Income (QBI)
- (2) 20% × Modified Taxable Income (MTI)

Modified Taxable Income = Taxable income BEFORE QBI deduction - Net capital gains