



Tax Court Rules on Investment and Residential Real Estate Transactions

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The Internal Revenue Code (the "Code") contains several practical provisions designed to reduce or eliminate income tax liability in certain real estate transactions. Code ? 1031(a) provides that no gain or loss shall be recognized on like-kind exchanges, which it defines as exchanges of (1) property held for investment purposes or for productive use in a trade or business for (2) property that will also be held for investment purposes or for productive use in a trade or business. While Code ? 1031 concerns investment or business-related property, Code ? 121 provides tax relief on the sale of a taxpayer's residence. Code ? 121(a) permits taxpayers filing a joint return to exclude \$500,000 of gain on the sale of property used as the taxpayer's principal residence for two of the last five preceding years. The Tax Court has applied each of these taxpayer relief provisions in two recent cases.

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