

Pre-Sale Capital Gain Planning Analysis

Rental Property Disposition — Tax Impact & Optimization Strategies

Client: James & Rebecca Whitfield · Date: June 2026

Executive Summary

James and Rebecca are considering the sale of a long-held rental property in Walnut Creek, California, expected to generate a gain of approximately \$1,225,000. Without pre-sale planning, the combined federal and California tax attributable to this transaction alone could reach \$424,750 — an effective rate of nearly 35% on the gain. This analysis identifies four strategies that, when implemented before closing, may reduce the current-year tax liability by an estimated \$148,400 and produce lifetime savings approaching \$192,000.

EXPECTED NET
PROCEEDS
\$1,650,000

ESTIMATED
TOTAL GAIN
\$1,225,000

TAX WITHOUT
PLANNING
\$502,050

POTENTIAL
CURRENT-YEAR
SAVINGS
\$148,400

Household Profile

Filing Status
Married Filing Jointly

James (Age 58)
VP of Engineering

Qualified Dividends
\$12,400

Tax Year
2026 (Projected)

Rebecca (Age 55)
Marketing Director

Interest Income
\$4,800

State of Residence
California

Combined W-2 Income
\$305,000

Total Ordinary Income
\$322,200

Rental Property — Gain Calculation

The property was purchased in 2012 and has been held as a rental investment for over fourteen years. The adjusted basis reflects the original purchase price plus capital improvements, reduced by depreciation claimed during the holding period.

Component	Amount
Original Purchase Price (2012)	\$485,000
Capital Improvements	\$135,000
Cost Basis Before Depreciation	\$620,000
Less: Accumulated Depreciation	(\$195,000)
Adjusted Cost Basis	\$425,000

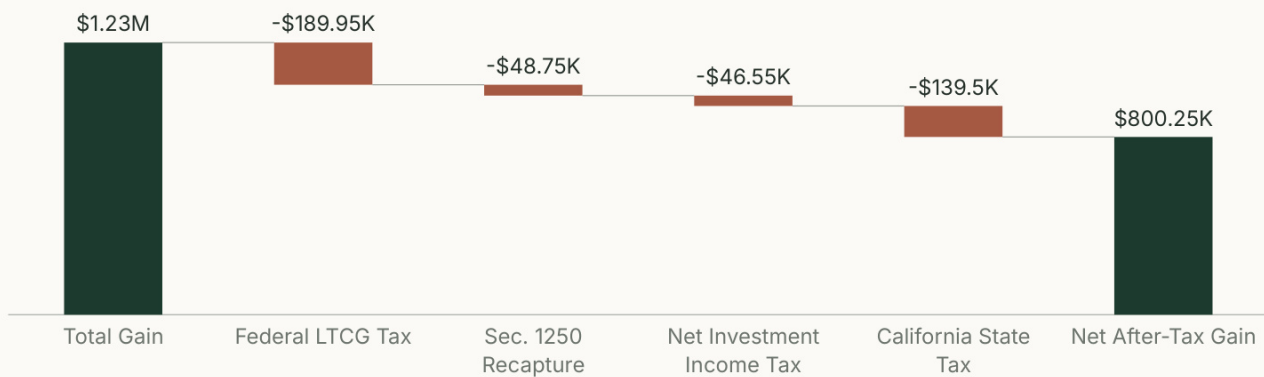
Component	Amount
Expected Net Sale Proceeds	\$1,650,000
Total Estimated Gain	\$1,225,000

Gain Composition The \$1,225,000 total gain has two components taxed at different federal rates: **\$1,030,000 in long-term capital gain** (taxed at 15–20%) and **\$195,000 in depreciation recapture** under Section 1250 (taxed at a maximum federal rate of 25%). Both components are taxed as ordinary income by California.

Tax Impact Without Pre-Sale Planning

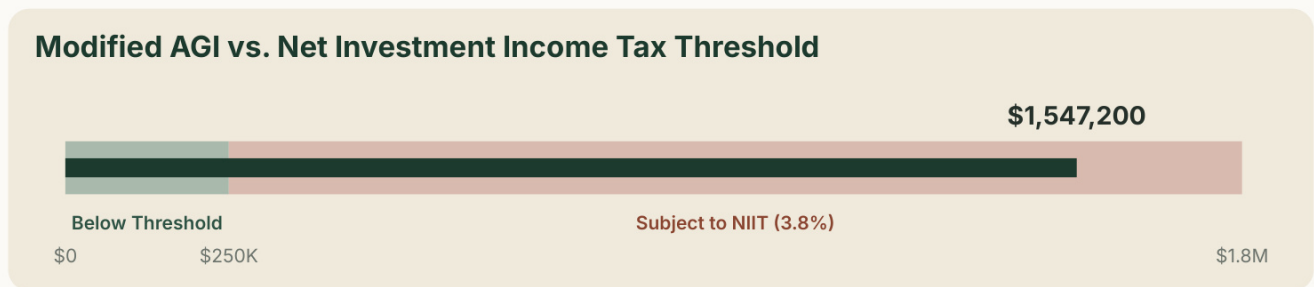
The chart below illustrates how the capital gain is consumed by federal and state taxes when no planning strategies are employed prior to the sale.

From Gain to Net After-Tax Proceeds



Total Tax on the Gain \$424,750	Net After-Tax Gain \$800,250	California Tax on the Gain \$139,500
Effective Rate on the Gain 34.7%	Federal Tax on the Gain \$285,250	Combined Top Marginal Rate 37.1%

Key Tax Thresholds



Net Investment Income Tax (3.8%) With a projected modified AGI of \$1,547,200, the household exceeds the \$250,000 NIIT threshold by nearly \$1.3 million. The 3.8% surtax applies to the lesser of net investment income (\$1,242,200) or the excess above the threshold, adding an estimated **\$46,550** to the federal tax bill on this transaction alone.

Depreciation Recapture — Section 1250 \$195,000 of the gain represents previously claimed depreciation and is recaptured at a maximum federal rate of 25%, generating approximately **\$48,750** in additional federal tax. This recapture component cannot be deferred through installment sale treatment.

California Taxes Capital Gains as Ordinary Income California provides no preferential rate for long-term capital gains. The entire \$1,225,000 gain is taxed as ordinary income, pushing the household into the 13.3% state bracket. An additional 1% Mental Health Services Tax applies to taxable income exceeding \$1,000,000 (MFJ), further increasing the state liability.

Pre-Sale Optimization — Scenario Comparison

The following compares the projected tax outcome under two scenarios: the baseline (no planning) and an optimized approach using four coordinated strategies implemented before the closing date.

Attribute	No Planning	★ Optimized Pre-Sale Plan
Current-Year Recognized Gain	\$1,225,000	\$735,000
Gain Deferred to Future Years	\$0	\$490,000
Charitable Deduction	\$0	\$120,000
Capital Losses Applied	\$0	\$35,000
Total Federal Tax	\$337,950	\$225,600
Total California Tax	\$164,100	\$128,050
Total Current-Year Tax	\$502,050	\$353,650
Current-Year Tax Savings	---	\$148,400
Est. Lifetime Tax Reduction	---	\$192,400

Strategy Detail

Each strategy targets a different component of the tax liability. The first two generate permanent tax savings; the latter two defer gain recognition to future years when the household's marginal rates may be significantly lower.

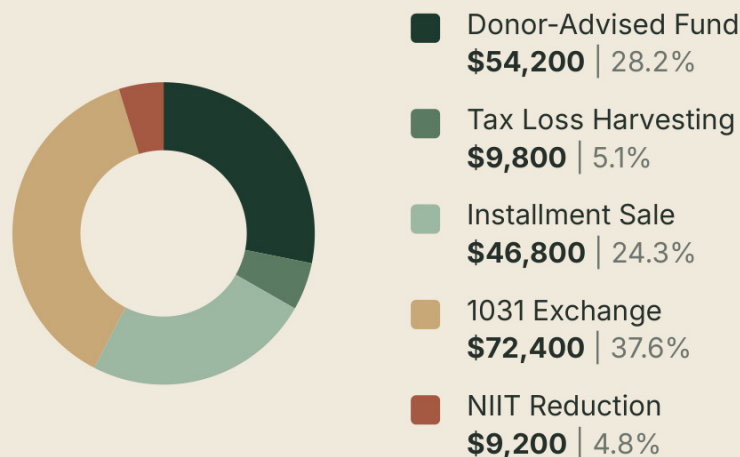
Strategy 1 — Donor-Advised Fund Contribution (\$120,000) Contributing \$120,000 of separately held appreciated securities (cost basis approximately \$45,000) to a donor-advised fund generates a \$120,000 charitable deduction while permanently eliminating \$75,000 of embedded capital gains. The deduction is limited to 30% of AGI for appreciated property but may be carried forward for five years. The household retains full advisory privileges over grant recommendations from the fund.

Strategy 2 — Tax Loss Harvesting (\$35,000) A review of the taxable brokerage portfolio identifies approximately \$35,000 in unrealized losses across several equity positions. Harvesting these losses before year-end offsets \$35,000 of the capital gain dollar-for-dollar, generating an estimated \$9,800 in combined federal and state tax savings with no change to overall asset allocation after reinvestment in comparable holdings.

Strategy 3 — Installment Sale Note (\$290,000 Deferred) Structuring a portion of the sale as a three-year installment note allows \$290,000 of the gain to be recognized ratably over 2027–2029 rather than entirely in 2026. This keeps a larger share of the gain in the 15% federal capital gains bracket each year and below California’s top marginal threshold. Interest on the outstanding note balance is taxable as ordinary income to the seller.

Strategy 4 — Partial Section 1031 Exchange (\$200,000 Deferred) Directing \$200,000 of the net proceeds into a qualifying replacement investment property through a Section 1031 like-kind exchange defers that portion of the gain indefinitely. A qualified intermediary must be engaged before the closing date. The replacement property must be identified within 45 days and acquired within 180 days of the sale. The deferred gain carries over to the replacement property’s basis.

Estimated Lifetime Tax Savings by Strategy



Estimated Tax Payment Schedule

Federal and California estimated tax payments must be made quarterly to avoid underpayment penalties. The schedule below assumes a Q3 2026 closing date with the optimized pre-sale plan in place.

Due Date	Federal (Est.)	California (Est.)	Notes
Jun 16, 2026	\$23,500	\$15,200	Q2 — Pre-sale baseline
Sep 15, 2026	\$95,400	\$52,800	Q3 — First payment post-close
Jan 15, 2027	\$95,400	\$52,800	Q4 — Second post-close payment
Apr 15, 2027	Balance due	Balance due	Filing deadline and true-up

Safe Harbor Reminder To avoid underpayment penalties, total estimated payments plus withholding must equal at least 110% of the prior-year tax liability (for AGI above \$150,000) or 90% of the current-year liability, whichever is less. Given the magnitude of this transaction, accelerating estimated payments into Q3 is strongly recommended.

Recommended Next Steps

1. Confirm the expected sale price, closing timeline, and buyer structure with the transaction attorney.
2. Engage a qualified intermediary for the Section 1031 exchange — the intermediary must hold proceeds and be in place before the closing date.
3. Review the existing brokerage portfolio to identify loss harvesting candidates and appreciated securities suitable for the donor-advised fund contribution.
4. Open a donor-advised fund account (if not already established) and complete the appreciated stock transfer before year-end.
5. If pursuing an installment note, negotiate terms with the buyer and confirm the structure with tax counsel before closing.
6. Coordinate with the CPA to calculate quarterly estimated tax payments and establish a payment calendar to avoid penalties.
7. Schedule a follow-up planning session at least 30 days before the anticipated closing date to finalize all pre-sale actions.

IMPORTANT DISCLOSURES

This analysis is based on hypothetical projections using estimated 2026 tax rates, thresholds, and planning assumptions. All figures are illustrative. Actual results will depend on the final sale terms, market conditions, legislative changes, and individual circumstances. Tax rates and thresholds are subject to change. This document is provided for educational and illustrative purposes only and does not constitute tax, legal, or investment advice. Consult a qualified tax professional before implementing any strategy discussed in this report.