1031 Exchanges Made Easy

A Guide to Section 1031 Tax-Deferred Exchanges



Section 1031 of the Internal Revenue Codes allows the deferral of federal, and sometimes state, gain on the sale of business use or investment property provided another business use or investment property is acquired. An exchange is much like a typical sale followed by an acquisition within 180-days but with a few rules attached.

BENEFITS OF AN EXCHANGE

This often overlooked tax strategy can help you accomplish many short and long-term real estate objectives:

- Immediate tax avoidance
- Ability to acquire real estate with pre-tax dollars
- Long-term appreciation on tax deferral
- Estate preservation (deferred gain may be forgiven upon death)
- Less management responsibility
- Consolidation of properties
- Fresh depreciation schedule
- Greater selling and buyer power
- Increased income potential
- Relocation or expansion of business
- Diversification of assets or geographic locations
- Conversion to personal use property and eventually qualify for primary residence exclusion
- Any asset held for business or investment can be exchanged, such as airplanes, equipment, etc.

REQUIREMENTS OF A SUCCESSFUL 1031 EXCHANGE

- Both the relinquished (old) and replacement (new) properties must be held for business use or investment. Any kind of real estate can be exchanged for any other kind of real estate and you can sell or acquire multiple properties. The properties can be located anywhere within the United States or in some territories.
- The replacement property must be identified within 45-days of the date the relinquished property is conveyed to your buyer. To identify, you simply need to send a signed letter to the qualified intermediary (QI) and list the property or properties you are interested in acquiring.
- You must acquire your identified replacement property within 180-days of the closing of your relinquished property. You do not have to acquire every property identified.
- Title to both the relinquished and replacement properties must be held in the same name.
- The replacement property must be of equal or greater value *and* equity than the relinquished property. A trade down in either equity or value is generally taxed dollar for dollar.
- A QI, such as 1031 CORP., must be used to facilitate the transaction. A QI is an independent party that has not acted as your real estate professional, attorney, accountant or financial advisor within the past two years and is not your employee, partner or close relative.

1031 CORP. handles all documentation, provides written reminders of time deadlines and coordinates all details with your REALTOR®, attorney, CPA and closing agents. We deposit your exchange proceeds in an interest bearing FDIC insured account until your replacement property is acquired. Your QI helps keep the exchange transaction easy for you and your advisors.

INITIATING YOUR 1031 EXCHANGE

An exchange must be set up prior to the closing of your relinquished property. It is recommended you initiate your exchange as soon as you have signed your Agreement of Sale with a buyer. Your closing agent can help you get started.

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