

1031 EXCHANGE GUIDE



WHAT IS A 1031 EXCHANGE?

IRC Section 1031 (a)(1): "No gain or loss shall be recognized on the exchange of real property held for productive use in a trade or business or for investment, if such real property is exchanged solely for real property of like-kind which is to be held either for productive use in a trade or business or for investment."

WHAT ARE THE BENEFITS?

Executing a 1031 Exchange allows investors to avoid:

- Federal capital gains tax
- State capital gains tax
- Net investment income tax
- Depreciation recapture

1031 EXCHANGE TIMING RULES

- The exchanger has forty-five (45) days to identify potential replacement property or properties
- The exchanger has one hundred eighty (180) days to acquire the replacement property or properties

THE IDENTIFICATION PROCESS

- Identify up to three (3) properties of any value
- Identify more than three (3) properties with an aggregate value that does not exceed 200% of the market value of the relinquished property
- Identify more than three (3) properties with an aggregate value exceeding 200% of the relinquished property, knowing that 95% of the market value of all properties identified must be acquired

THE REPLACEMENT PROPERTY

- Like-kind property for like-kind property
- The replacement property must be of equal or greater value than the original property
- The exchanger must place equal or greater debt on the replacement than the outstanding debt on the original property