



1031 Exchange Cheat Sheet

Reasons to Exchange:

- Diversification/Consolidation
- Leverage
- Management Relief
- Increased Income Potential
- Defer Taxes (and possibly eliminate them)

Misconceptions of Exchanging

You have “swap” properties. Although this was required in the original code, this is rarely done in present times. 1031 Exchanges now enable one to sell their property to someone totally unrelated to the person from whom they are purchasing their replacement property.

I have to buy something that costs more than I am selling. This is only true if you want to defer ALL of the capital gains taxes. You can purchase for less and still have some tax benefits.

I can only exchange into the same type of property as the one I am selling. Not true! All real estate qualifies for 1031 exchange. This means that you can sell a vacant lot and exchange into a residential property or vice versa. The possibilities are endless.

Why bother? I will have to pay the taxes sooner or later. Not necessarily. Through careful planning, you can ensure that you don't ever have to pay the taxes.

Rules of the Game

There are 5 basic rules of exchanging. If you know these rules, we believe you know 90% of what you need to know as a trusted advisor to your clients.

- ⇒ Net Selling Price (NSP): In order to defer all of the tax, the investor must purchase a property that is equal to or greater than the NSP of the relinquished property. (NSP=Contract Price – Title Fees/Realtor Commissions)
- ⇒ Property Must Be Held for Business/Investment Use: Investor may not exchange primary or second home. Aside from that, all real estate qualifies. (ie. Vacant land, commercial property, residential property, etc.)
- ⇒ 180 Days: Investor has 180 days to complete the exchange. This means that the investor must close on all intended purchases within 180 days of closing on the sale.
- ⇒ 45 Days: Within the first 45 days of the 180 day period, the investor must identify up to 3 possible replacement properties. Only the properties identified as of day 45 will qualify for the exchange. (Restrictions apply to investors who wish to identify more than 3 properties)
- ⇒ Qualified Intermediary: Investor must use a Qualified Intermediary (QI) to facilitate the exchange. The QI may not be any agent or fiduciary of the investor (ie. Attorney, CPA, Realtor, etc.)

