Legal 1031
Exchange Services, LLC
a Kensington Vanguard Company

What is a 1031 Exchange?

An IRC §1031 tax deferred exchange allows owners of real property to defer the recognition of a capital gains tax they would have recognized when they sold their property. Exchanging allows investors to reinvest money into new business or investment properties that would otherwise have been paid to the government as a capital gains tax. Tax deferred exchanges are not new — they have been available in one form or another since 1921, and in its current format since 1986.

Simply put, an exchange is structured as a sale, just like any other sale, and a purchase just like any other purchase, but with the inclusion of a qualified intermediary to structure the transactions as a 1031 exchange. Instead of paying a capital gains tax to the government, an investor can use the full sale proceeds toward the purchase of a new property. In order to obtain this benefit, it is important to involve a qualified intermediary before you start your transaction.

1031 EXCHANGE RULES

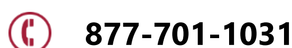
- To qualify for an IRC §1031 tax deferred exchange, real property must be held for productive use in a trade or business or for investment purposes.
- To complete a valid deferred exchange, prior to the sale of relinquished property, the taxpayer must engage a Qualified Intermediary to prepare the legal documents necessary for the exchange.
- To defer recognition of all capital gains, the property purchased must be of equal or greater value than the relinquished property (less allowable closing costs). The taxpayer must replace all the equity and obtain equal or greater financing on the replacement property as was paid off on the relinquished property. If less financing is used, additional cash can be added to replace some or all of the debt. The taxpayer must receive nothing but like-kind property.
- The taxpayer selling the relinquished property must be the same taxpayer purchasing the replacement property.
- Replacement properties must be identified within a 45-day identification period (calendar days). This timeline does not start until the closing (transfer) of the relinquished property.
- The taxpayer needs to purchase one or more identified properties within 180-days from the sale of the relinquished property.
- In order to avoid tax consequences, all the proceeds from the sale of the relinquished property must be received directly by the Qualified Intermediary and held in escrow, until the exchange is completed - with few exceptions (generally only allowable exchange expenses).

QUALIFIED INTERMEDIARY SERVICES NATIONWIDE

Legal 1031 Exchange Services, LLC

info@legal1031.com

www.legal1031.com


877-701-1031

Legal 1031 Exchange Services, LLC does not provide tax or legal advice, nor can we make any representations or warranties regarding the tax consequences of your exchange transaction. Property owners must consult their tax and/or legal advisors for this information. Our role is limited to serving as qualified intermediary to facilitate your exchange. © 2020 Legal 1031 Exchange Services, LLC All rights reserved.