

Understanding the IRC §1031 Exchange

A PRACTICAL GUIDE TO
SUCCESSFUL INTERNAL REVENUE
CODE §1031 EXCHANGE STRATEGY



IRC 1031 Tax-Deferred Exchange

A 1031 Tax Deferred Exchange allows real estate investors to defer the payment of capital gain taxes when selling an investment property and exchanging into like-kind investment property. There are several types of exchanges available and certain rules to follow to qualify for the tax deferral.

Exchange Types

Investors have the ability to structure their exchanges in several ways. Depending on the investor's situation, any of the five exchange structures listed below could be a viable option:

- ✓ Simultaneous
- ✓ Delayed
- ✓ Reverse
- ✓ Construction/Improvement
- ✓ Hybrid



Property Qualification

The internal revenue code requires that the properties involved in an exchange must be real property held for productive use in a trade or business or held for investment.



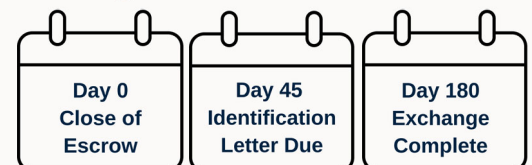
Full Tax Deferral Qualification

To defer 100% of the capital gain tax liability, two requirements must be met:

1. **Reinvest all the cash** that was generated from the sale of the relinquished property and;
2. **Purchase property equal or greater value** to the net sale price of the relinquished property.
(Gross Sale Price - Non-recurring Closing Costs)



Exchange Timeline



Identification Rules

You must identify by midnight of the 45th day.

- **The 3 Property Rule:** Allows for identification of any three properties, of any price, anywhere in the United States.
- **The 200% Rule:** Allows for identification of 4 or more properties with the combined value not exceeding 200% of the property sold.

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The Process Step-by-Step



Set up an Exchange Account

MUST be opened prior to the close of escrow on the property being sold.



Request Funds for Deposit

The initial earnest money deposit can be made out of pocket or disbursed from the exchange account.



Add 1031 Language

Language should be added to the contract reflecting the sellers intent to exchange.



Execute Phase 2 Agreement

AEC will work with the replacement property escrow company to obtain all appropriate signatures.



Execute Agreement

The agreement will be sent out for signatures prior to closing via DocuSign.



Report the Exchange

Reporting the exchange will be done using Federal Form 8824 for the year your Relinquished Property sold.



Locate Replacement Property

The IRS requires the potential replacement property be identified on or before Day 45.



Provide QI with the Contract

We will need a copy of the purchase contract to draft and send out Phase 2 DocuSign for the purchase.

“A successful exchange begins with well coordinated communication between the taxpayer, CPA, and their Agent/Broker”



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