

HOW TO GET THE MOST OUT OF A 1031 EXCHANGE

Defer your capital gains tax, master the 1031 exchange, and grow your property investment future.



Get a FREE Home Value Update at : LarisaEsmat.FreeHomeValues.net



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If you're a homeowner or property investor, you've likely heard of a 1031 exchange.

A 1031 exchange is when a property owner "swaps" one property for another of equal or greater value in order to defer the capital gains tax accumulated on the original property.

There are many rules involved in 1031 exchanges, and both buyers and sellers need to understand the intricacies of 1031 before actively trying to benefit from this process.



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WHAT IS A 1031 EXCHANGE?

Real estate investors can acquire a lot of capital gains taxes that build up on property sales. In 1921, U.S. Congress passed Section 1031 of the Internal Revenue Code to encourage ongoing reinvestments among property owners, so they could defer tax payments and continue to purchase more real estate.

1031 Exchange allows an applicable property sale to have little to no tax due at the time of exchange. Instead, you'll be able to increase your investment with the new property and pay off the capital gain tax at a later date.

You're limited in which properties you can exchange for, though. Section 1031 requires the two properties you're exchanging to be considered "like-kind". There are also different rules when it comes to exchanging properties such as vacation homes or open land.



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HOW DOES A 1031 EXCHANGE WORK?

Done correctly, a 1031 exchange can result in huge benefits. When you sell a property, instead of obtaining the funds and owing capital gains tax on the overall amount, you can put the proceeds into buying a new property that is similar in price and kind to the one you just sold. Think of it as a "swap" that can keep your investment growing. How does this work?

BUYING AND SELLING PROPERTIES

Know the type of property you are selling so you can adhere to and invest in a new property under the "like-kind" rule.

HELP FROM AN EXCHANGE FACILITATOR

You'll need to work with a qualified intermediary who can hold your funds in escrow and guide you on the exchange process. They'll keep up with deadlines, finances, and official swaps between properties.

REPORT THE EXCHANGE TO THE IRS

You'll also need to let the IRS know about your exchange details and meet the requirements to defer taxes legally.



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IMPORTANT RULES FOR 1031 EXCHANGE

There are strict requirements that need to be met for an investor to qualify for the 1031 exchange. Some of the most important ones include:

- From the date of sale of the property you're exchanging, you have 45 days to identify and find qualifying property replacements.
- You have 180 days after the sale to close on a new property.
- The selected property must be for business (or investment). This includes rental property and land.
- Exchanges still qualify even when mortgages exist on the new property. You may be responsible for mortgage payments and taxes.
- The exchange process must be accompanied by a qualified intermediary.
- Funds from the original sale are not allowed to be held by the seller (you). Funds must be handled by the qualified intermediary, in escrow.
- Sometimes, capital gains can apply toward leftover cash from the sale after the exchange is complete.
- There are no limits on how many times you can use a 1031 exchange, but be aware that building up multiple deferred gains can increase tax liabilities.
- If the exchange is unsuccessful for any reason, you could still get taxed for the property you sold.



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COMMON MISCONCEPTIONS OF SECTION 1031

1031's are savvy but complex. Many people believe some common misconceptions that simply are not true. Be aware of them!

Personal Attorneys/Accountants Can Act as Qualified Intermediaries.

- If your accountant or attorney has given you any advice or services before, you cannot hire them as an intermediary. Choose somebody new.

It's Easier to Skip 1031 Exchange and Pay the Capital Gains Tax.

- Capital gains percentages change and vary from state to state. Sometimes, easier doesn't mean better. A 1031 exchange can save you significant money if you want to keep investing.

I Should Do 1031 When Selling My Home.

- No. 1031 is for an investment property, not for personal residence. However, there are ways to avoid capital gains tax on primary homes.

An Exchange Can Be Done Anytime After Sale.

- Make sure you prepare for a 1031 before selling. This will ensure you meet the requirements and adhere to the limited timeframes.



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If you're looking to get the most out of your property sale, a 1031 might be an excellent decision. Talk to your financial advisor or mortgage broker today to see if a 1031 is in your best interest.

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