

What is a 1031 Property Exchange?

Defer Capital Gain Taxes: The 1031 Exchange

Anyone selling, buying or constructing real estate should look into the benefits of the 1031 Property Exchange. This offers both federal and state tax advantages to investment or business property exchanges for other like-kind property. What's a like-kind property? According to the IRS, its any property: "of the same nature or character, even if they differ in grade or quality. Personal properties of a like class are like-kind properties." Basically, a taxpayer cannot exchange a strip mall for an apartment building.

What does this mean to the average real estate investor or Realtor? 1031 Exchanges help you defer capital gains taxes on your property sale. This exchange is limited, however, to real estate investing, trade or business use. The replacement property must have a value and net equity equal to or greater than that of the relinquished property.

Keep in mind that you can't actually access proceeds from your sales transactions at closing. Instead, these funds are held for you in an escrow fund. Within 45 days, you must identify one to three replacement properties. The total market value of the identified real estate must be less than twice the value of the relinquished property. Following property identification, you'll need to make a purchase within 180 days. To the average buyer, this is a comfortable amount of time to select a worthwhile trade.

The 1031 Property Exchange has its monetary benefits. But ensure your process includes a qualified intermediary and specialized real estate attorney to adhere to IRS standards. The federal government will not allow a real estate broker, relative, attorney or accountant as monetary intermediary, or as the party holding property funds in escrow.

To learn more about the 1031 Property Exchanges and its unique tax benefits to you, consult with a qualified tax professional.

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