



## What you should know about 1031 Exchanges

*They're a TREAT for real estate investors!*

A **1031 exchange** can be used by savvy real estate investors as a strategy to build wealth. It is a tax break that allows you to sell real property held for business or investment purposes and swap it for a new purchase for the same purpose, **allowing you to defer capital gains tax** on the sale.

The properties exchanged must be considered like-kind in the eyes of the IRS for capital gains taxes to be deferred. There's no limit on how frequently you can do a 1031 exchange; however, specific time frames must be adhered to for each exchange.

Here are some basic rules to know:

- **Pre-Registration:** you must register the property for a 1031 Exchange before selling it.
- **Qualified Intermediary:** proceeds from the sale of the property must be held in escrow by a third party (qualified intermediary) until you buy the replacement property. You cannot receive the proceeds, not even temporarily.
- **45-Day Rule:** within 45 days of the sale of the property, you must designate the replacement property in writing to the intermediary, specifying the property that you intend to acquire.
- **Three-Property Rule:** you can designate three properties as long as you eventually close on one of them. You can even designate more than three if they fall within certain valuation tests.
- **180-Day Rule:** you must close on the new property within 180 days of the sale of the old property.

You should enlist a knowledgeable team of professionals to fully understand options and properly execute a 1031 exchange. This team should include a real estate agent, a title (closing) attorney, a qualified intermediary, and, of course, your tax accountant.

Contact me if you would like more information about getting started with a 1031 Exchange, including referral(s) to qualified intermediaries.







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