

# 1031 EXCHANGE FOCUS

Section 1031 of the internal revenue code is one of the greatest wealth building tools available to the investor.

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## 1031 EXCHANGE FAQ'S

Internal Revenue Code Section 1031 allows investors to defer the payment of capital gains taxes when selling investment property and exchanging into other like-kind investment property.

### Q: HOW LONG DO I HAVE TO OWN A PROPERTY BEFORE I CAN EXCHANGE IT?

**A:** The longer the better. Unfortunately, there is no safe holding period for property to automatically qualify for an exchange. Keep in mind, the property only needs to be "held for investment" for it to be eligible for an exchange. Time of ownership is only one factor the IRS looks at when determining if the property was "held for investment". Some tax advisors recommend a minimum holding period of one year.

### Q: CAN I SELL MY DUPLEX AND PURCHASE RAW LAND?

**A:** Certainly. Properties involved in an exchange need to be held for either productive use in trade or business or for investment. Holding land for its future appreciation would be considered held for investment. Don't get confused by the "like kind" requirement. "Like kind" can be any real property used for business or investment purposes within the U.S.

### Q: CAN I BUY MY REPLACEMENT PROPERTY FIRST?

**A:** Yes. This requires that you do a reverse exchange. The reverse exchange may be an option provided it is structured according to the safe harbor guidelines.

### Q: CAN I MOVE INTO A RENTAL PROPERTY THAT WAS ORIGINALLY PURCHASED AS PART OF A 1031 EXCHANGE?

**A:** Yes. However, please keep in mind that the IRS will look at your "intent" in determining if your exchange is valid. If the

IRS feels your original intent when the property was initially acquired was to use it as a primary residence, you may have your exchange disqualified.

### Q: DO I HAVE TO REINVEST ALL OF MY CASH (EQUITY)?

**A:** No. However, any cash (equity) that is not reinvested in real estate will be taxable (and is known as cash boot). The general rule of thumb if you don't want to pay any taxes, is to reinvest all of your cash and purchase a property equal or greater in value.

### Q: HOW LONG DO I HAVE TO COMPLETE MY EXCHANGE?

**A:** 180 days. However, also keep in mind you will be required to identify your potential replacement properties on day 45 of your exchange. Your timeline starts when you close escrow on the property you are selling.

### Q: DOES MY REALTOR NEED TO DO ANYTHING SPECIAL SINCE I AM EXCHANGING?

**A:** Your Realtor needs to make sure the sales contract is assignable and include the appropriate 1031 Exchange language. Asset Exchange Company can provide the necessary language.

### Q: HOW DO I GET MY EXCHANGE STARTED?

**A:** Call Asset Exchange Company once you've opened escrow. We'll draft up an exchange agreement and coordinate with you and your escrow company to facilitate the exchange.

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