

*Inside This Special Report....*

# **The Basics of A Tax Deferred Exchange**

## **-1031 Exchange Explanation-**

Generally, Congress requires the recognition of taxable income on any sale or exchange that is not specifically exempted from taxation under the Internal Revenue Code. Congress, through Section 1031 of the Internal Revenue Code, has provided that a real property owner who sells his property and then turns around and reinvests the proceeds in ownership of like-kind property can do so without paying the capital gains tax.

To qualify as a like-kind exchange, property exchanges must be done in accordance with the rules set forth in the tax code and in the treasury regulations.

### **Who should consider a 1031 Exchange?**

If you have real property that will net you a gain upon sale (generally property that has been substantially depreciated for tax purposes and/or has appreciated in FMV), then you are exactly the person who should consider a 1031 Exchange.

If you have a property that will net you a loss upon sale, then you are probably not someone who should consider a 1031 Exchange unless you do not have enough capital gains to offset the capital losses you will incur from the sale of your loss property.

### **1031 Exchange Rules**

1. The real property you sell and the real property you buy must both be held for productive use in a trade or business or for investment purposes and must be like-kind.
2. The proceeds from the sale must go through the hands of a qualified intermediary and not through your hands or the hands of one of your agents or else all the proceeds will become taxable.

*Compliments of Rob Cassam, CCIM, MBA, Broker*

3. All the cash proceeds from the original sale must be reinvested in the replacement property - any cash proceeds that you retain will be taxable.
4. The replacement property must be subject to an equal level or greater level of debt than the relinquished property or the buyer will either have to pay taxes on the amount of decrease or have to put in additional cash funds to offset the lower level of debt in the replacement property.

### **1031 Time Lines**

1. Identification Period: Within 45 days of selling the relinquished property you must identify suitable replacement properties. This 45 day rule is very strict and is not extended should the 45th day fall on a Saturday, Sunday, or legal holiday.
2. Exchange Period: The replacement property must be received by the taxpayer within the "exchange period", which ends within the earlier of . . . 180 days after the date on which the taxpayer transfers the property relinquished, or . . . the due date for the taxpayer tax return for the taxable year in which the transfer of the relinquished property occurs. This 180-day rule is very strict and is not extended if the 180th day should happen to fall on a Saturday, Sunday or legal holiday.

### **Replacement Property Identification**

1. 3-property rule: You may identify any three properties as possible replacements for your relinquished property. More than 95% of exchanges use the 3-property rule.
2. 200% rule: You may identify any amount of properties as possible replacements for your relinquished property as long as the aggregate value of those properties does not exceed 200% of the value of your relinquished property.
3. 95% exemption: You may identify any amount of properties as possible replacements for your relinquished property as long as you end up purchasing at least 95% of the aggregate value of all properties identified.

### **Like-Kind Property**

In a 1031 real property exchange you can exchange any real property for any other real property within the United States or its possessions IF said

property(ies) are held for productive use in trade or business or for investment purposes.

### Examples of "Like-Kind Property"

- Apartments
- Commercial
- Condos
- Duplexes
- Raw Land
- Rental Homes\*

\* Qualification for Section 1031 exchanges depends upon the extent of personal use.

### **How Do I Get Started?**

As you can see, investing in commercial real estate can make you wealthy... *if you know what you are doing.* We have covered a lot of ground in this report, and hopefully it started some gears turning in your head.

### **A FREE CONSULTATION**

For everyone who has taken the time to order and read this special report, I offer a FREE, no obligation review of your situation. It normally only takes about 30 to 40 minutes. We'll go over some questions, and determine where you are at, and where you want to be versus what I offer my clients.

No big sales pitch, no pressure... *just honest information.*

Because I have helped hundreds of people find the right property to get started, you save both time and money using my system. You'll be totally informed on market values, and will be the first to know about hot new properties the moment they become available! My clients love having a process to follow to achieve a predictable result without the hassles of tenants and toilets!

To be quite blunt, my system for buying investment property is not for everyone. It works in a systematic and predictable fashion for those buyers who determine this system is a fit for them.

**When you are ready, just pick up the phone and call my office at (704) 442.1774 or toll free outside the area at (800) 587-4066 ext. 100.**

Thanks, and I look forward to hearing from you and helping you on your way to wealth and financial freedom.

Sincerely,

A handwritten signature in cursive script that reads "Rob Cassam". The signature is written in black ink and is positioned below the word "Sincerely,".

Rob Cassam, CCIM, MBA, Broker

P.S. Whether you decide to work with me, another real estate agent, or give it a go on your own, be sure to call for your free review. Make sure you are armed with all the information possible before making any big decisions. While I can't help anyone, I welcome the opportunity to see if there is a fit for your needs and what I do. As always, "no" is OK in my world.

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