

The 1031 Exchange: Sell, Reinvest, Defer the Tax

Trade one investment property for another and keep the capital gains tax working for you instead of the IRS. The rules are strict, the payoff is real.

WHAT IT DOES

When you sell an investment or business property and buy another of equal or greater value, Section 1031 lets you defer capital gains tax and depreciation recapture. Real property only, and both sides must be held for investment or business use. Your primary residence does not qualify. The savings stay invested, so you buy more building with the same equity.

THE TWO CLOCKS

Day 45: identify replacement property in writing to your intermediary.
Day 180: close on it. Both clocks start the day your sale closes and neither one extends for weekends, holidays, or a slow escrow. Identify up to three properties of any value, or more if their combined value stays under 200% of what you sold.

WHERE THE MORTGAGE COMES IN

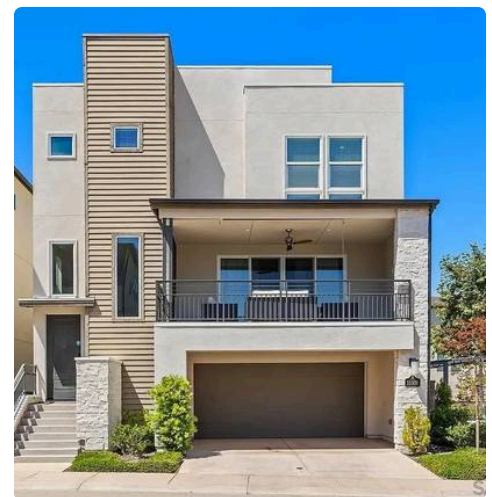
To fully defer, you reinvest all the cash and replace the debt you paid off, or cover the gap with new cash. Any shortfall is taxed as boot. Your loan needs to close inside the 180 days, so get approved before you list. DSCR loans qualify on the rent, close fast, and never ask for a tax return, which makes them a natural fit.

LINE UP THE LOAN BEFORE DAY ONE

A pre-approval on the replacement side before your sale closes turns a stressful 45 day hunt into a normal purchase. Ask for the DSCR and conventional investor options side by side.

RULES THAT TRIP PEOPLE UP

- ✓ Never touch the sale proceeds, the intermediary holds them
- ✓ Same taxpayer sells and buys
- ✓ Identify by day 45, close by day 180
- ✓ Buy equal or greater value and replace the debt
- ✓ California tracks out of state exchanges with an annual form
- ✓ Hire the intermediary before you close the sale



Let's run your real numbers.

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intermediaries
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recommends