Finesse Tax Accounting, LLC

1031 Exchange

Do Your Taxes With Finesse

Also known as tax free or tax deferred exchange the 1031 Exchange can help a real estate investor defer and possibly avoid the tax ramifications of selling their investment property. There are many facets to this type of transaction and failure to abide by each and every rule and regulation can result in a failed or partial exchange, tax liability as well as time and money lost. With a little work and research a real estate investor can be successful in completing this transaction and defer or avoid some costly taxes when they sell their investment property.

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- Relinquished and Replacement property must be "like kind" and both properties must be held for a productive business, trade, or investment purpose
- The purchase price of the replacement property must be greater than or equal to the total net sales price of the relinquished property
- All equity received from relinquished property must be used to purchase replacement property
- Proceeds from sale of relinquished property must go through a "QI" (qualified intermediary)
- Investor has 45 days from sale date of relinquished property to identify at least 1 property to act as replacement property
- Investor has 180 days from sale date of relinquished property to acquire a valid replacement property
- The 45/180 day timelines must be followed under all circumstances and are not extendable in any case, even if the 45th/180th day falls on a weekend or holiday
- In order for a 1031 Exchange to be valid, there are acceptable holding/ownership periods for both Relinquished and Replacement Properties.
- 1031 Exchanges can be performed on any business asset including but not limited to autos, light/heavy equipment, and land
- In order for a property to qualify for gains exclusion under primary residence rules first it must be used for two years in trade, business, or rental and once converted to personal use, must be held for at least 5 years after it is acquired in 1031 exchange.