

What is a 1031 Exchange?

Named after section 1031 of the U.S. Internal revenue code, a 1031 exchange is a procedure that allows an owner of appreciated real estate to exchange that property for an alternative “like-kind” property while deferring capital gains.

CAPITAL-GAINS TAX DEFERRAL AND OTHER BENEFITS

When a real estate investor wants to sell one property and buy another, the primary benefit of doing so through a 1031 exchange is the ability to **defer capital gains taxes**. Thus, the higher the capital gains bill that an investor faces, the more they would potentially gain.

While real estate investing offers many benefits, appreciated commercial property can also present investors with difficult choices when selling implies a large capital-gains tax bill. Knowing how to invest in a tax-efficient manner can have a significant impact on the value of those benefits, and 1031 exchanges are one of the most tax-efficient investment vehicles available to real estate investors.

A 1031 EXCHANGE MAY ENABLE INVESTORS TO:



Increase purchasing power in the replacement property by freeing up capital



Diversify assets



Consolidate several properties into one, or divide one into several



Gain the flexibility of owning shares in a portfolio of real estate in place of direct property ownership



Sell a real estate investment with a low cost basis



Bequeath their assets and take advantage of the step-up in tax basis



Move to a passive role, reduce ongoing property management burdens or switch to a managed property



Seek a property with better return prospects



Capitalize on the value of appreciated assets



Reset the depreciation clock



Maximize the amount of wealth working for them

A 1031 EXCHANGE MAY HAVE:

- A high minimum investment
- Low liquidity for at least three years (potentially longer)
- Require the help of tax, real estate and potentially estate planning professionals
- Single property risk
- Nonpermanent solution
- Difficulty around estate planning (divisibility among heirs)

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