

## BASIC FACTS ABOUT LIKE KIND EXCHANGES OF REAL ESTATE

Many owners of investment and business real estate are not aware of the opportunity to save thousands of dollars in capital gains taxes by exchanging, rather than selling, their investment or business property. A *Like Kind Exchange* under Section 1031 of the Internal Revenue Code results in the deferral of federal capital gains taxes when business or investment real estate is exchanged rather than sold. Other important facts include the following:

- Most sellers of business or investment property will pay federal capital gains taxes of *15% of the appreciation, less* the costs of selling the property, *plus 25% of any depreciation* taken on the property.
- Most states also impose their own income tax on the sale of business or investment property, but many recognize the deferral of such taxes if the seller completes a like kind exchange.
- Payment of federal capital gain taxes and most state income taxes is deferred until the property received in an exchange is sold or otherwise conveyed in a taxable transfer.
- A sale of real property followed by reinvestment in real property *does not* qualify as a like kind exchange. An investor must take certain steps to set up an exchange *before* the sale of the property closes.
- Property to be exchanged must be *investment property*, such as raw land held for appreciation or second “vacation” homes, or *trade or business property*, such as rental real estate or farm and ranch property.
- All properties given and received in a like kind exchange must be *like kind property*. Fortunately, all interests in real estate are like kind to each other, making it possible to exchange improved property for unimproved property, urban property for rural property, a condominium/townhome for a duplex, a single family rental house for a motel, or vacant land for an office building.
- An investor exchanging property has *45 calendar days* after the closing to identify up to three properties he or she is interested in acquiring and *180 calendar days* after the closing to acquire all of the identified property or properties as part of the exchange.
- To defer all of the capital gains, an investor must acquire property *equal or greater in value* to the property sold and must *reinvest all equity* from such property. Receiving cash or trading down in value is treated as *boot* and taxed as capital gain.
- A qualified independent third party must facilitate the transaction to meet the requirements imposed by IRC Section 1031 for a valid like-kind exchange. Using a *Qualified Intermediary* ensures an exchange will receive favorable tax treatment. The Qualified Intermediary participates on the investor’s behalf by conveying and acquiring exchange properties and holding the sales proceeds.
- The astute investor will not only inquire about exchange fees, but will also determine how interest will be paid on the exchange proceeds while held in escrow. Our fee is \$375 per closing, and we pay competitive interest on exchange proceeds. Other important questions are whether the firm is fidelity bonded and the background and experience of the firm and persons upon whom you will be relying to handle your tax deferred exchange.

**PLEASE CONTACT 1031 SOLUTIONS AT  
866-440-1031 (TOLL-FREE) OR 303-440-1031 (DENVER/BOULDER)  
FOR ADDITIONAL INFORMATION  
OR TO SCHEDULE A COMPLIMENTARY CONSULTATION**