

## Reasons to Exchange

Diversification  
and / or consolidation

Leverage

Management relief

Increased income  
potential

Defer or possibly  
eliminate federal and  
state taxes

## Rules of 1031 Exchanges

There are five basic rules of 1031 exchanges. If you learn these rules, we believe you'll know 90 percent of what you need to be a trusted advisor to your clients.

- 1** To defer all tax, investors must purchase a property of equal or greater value than the net selling price (NSP)\* of the relinquished property  
\*NSP = contract price – title fees/realtor commissions.
- 2** Property must be held for business/investment use: Investors may not exchange primary or secondary homes. All other real estate qualifies.
- 3** Investors have 180 days to complete the exchange and must close on all intended purchases within 180 days of closing on the sale.
- 4** Within the first 45 days of the 180-day period, investors must identify up to three possible replacement properties. Only these properties qualify for the exchange. Restrictions apply to investors who wish to identify more than three properties.
- 5** Investors must use a qualified intermediary (QI) to facilitate exchanges. The QI may not be any agent or fiduciary of the investor (i.e., attorney, realtor, CPA, etc.)

## Misconceptions



**I have to “swap” properties with the same individual.** You do not! This was required in the original code, but 1031 exchanges now enable one to sell property to someone totally unrelated to the person from whom they are purchasing the replacement property.



**I can only exchange into the same type of property as the one I am selling.** Not true! All real estate qualifies for 1031 exchange. You can sell a vacant lot and exchange into a residential property or vice versa. The possibilities are endless.



**I have to buy something that costs more than I am selling.** This is only true if you want to defer ALL of the capital gains taxes. You can purchase for less and still have some tax benefits.



**Why bother? I will have to pay the taxes sooner or later.** Not necessarily. Through careful planning, you can avoid ever paying the taxes.