1031 Property Exchanges

When you sell property – business or investment – you know that the tax-man is around the corner. Well, the IRS has a rule that gives you a bit of a boost, in terms of time.

A 1031 property exchange – IRS's IRC Section 1031 - allows you to postpone paying tax on sold property, only if you reinvest that money into a similar, or "like kind", property. The reason this is important to sellers of commercial real estate is that there is a pool out there of investors actively executing the exchange that have to buy within a small time frame. That is why we at cincyland.com market your listings direct to our national data base of 1031 exchange agents. As a seller what more could you want than finding a buyer who has to buy now? It is crucial to include this marketing when selling commercial property.

The question of what else you can include in a 1031 exchange is a slightly complex one, and if you have non-property elements in your exchange, such as cash or the forgiving of a debt, that will be taxed.

Can you sell first or buy first? Yes – either order is allowable – to sell first or to buy the replacement property first.

Something else to understand here is that as a simple homeowner who sells one house and buys another one, you do not qualify for a 1031 exchange. It must be a business transaction, or the selling and buying of a property for investment purposes only.

When committing to a 1031 property exchange, you will also need what is called a Qualified Intermediary, a company that deals specifically with 1031 property exchanges, who will be the holder and disperser of monies relating to the sale and purchase of the properties involved.

What is “Like Kind”?

Interestingly, one kind of property doesn’t have to resemble another. The example the IRS itself provides is that empty land is like kind to land on which one built new property.

Like kind does not extend to certain other types of trades such as inventory, stocks, bonds and other financial vehicles. But it can extend to including materials on the property, as long as that material – equipment, for instance – does not exceed 15% of the value of the property.

When researching what is like kind in your particular situation, we recommend contacting the IRS for specifics.

The Clock Is Ticking – The 1031 Timeframe

The first magic number for ensuring that you fall legally under the 1031 timeframe is 45. You have 45 days from the day you release the property you are selling, to not only find another property, but get in writing – with signatures from both parties – that you have found another and intend to buy it, and that the seller intends to sell. The second magic number is 180. That is the number of days within which the purchase must be completed.

At Tax Time

When you file your regular taxes, you will also have to report your 1031 exchange, and that is done with Form 8824. Have your tax professional assist you. Remember…The 1031 Property Exchange is a tax deferment. You are still responsible for the payment of those taxes. What you are getting is a little time to collect that money.

The devil is in the details, so contact the IRS when undertaking a 1031 property exchange. Or contact the top local 1031 exchange coordinator Steve Robison at www.spe1031.com, 513-412-3481 or 800-427-7212. Tell them we sent you!

National 1031 exchange companies: http://www.atlas1031.com, http://www.orexco1031.com

1031 exchange properties for sale list: http://www.1031propertyswap.com,