

1031 Tips And Rules

- Consult with your financial, real estate, and legal advisers prior to initiating an exchange.
- Make sure the way you hold title to the property you are relinquishing won't be adjusted in any way during the course of the exchange. The tax deferral could be affected if you make a change while the exchange is in progress. Dissolving a partnership or funding a trust are examples that could affect the validity of an exchange.
- Receive only "like kind" property. Exchange investment property for investment property. If in doubt about what constitutes "like kind", consult with your attorney or real estate agent.
- Use all the proceeds from the relinquished property to acquire the replacement property.
- The debt on the replacement property must not be less than the debt on the relinquished property unless it is offset with additional cash. If the debt on the replacement property is larger, it cannot be as a result of lowered equity.
- A 1031 exchange may not include investment in property you already own.
- Deadline dates are set in stone. The replacement property must be identified within 45 days. It must be acquired within 180 days. Failure to meet either deadline will disqualify the exchange. Not MAY disqualify, but WILL disqualify. This is important.
- Reverse exchanges now have IRS guidance in the form of Revenue Procedure 2000-37. While you should try to sell the relinquished property before acquiring the replacement property, you may still be able to complete a tax deferred exchange if you purchase the replacement property first. Creating this "reverse" exchange situation while maintaining the tax deferral may be somewhat riskier, but it can be accomplished. As with any 1031 exchange, complying with IRS guidelines is the key.



TRUST DEPARTMENT

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