

# 1031 Exchange

A 1031 Exchange allows the tax-deferred exchange of real property. 1031 simply refers to the Internal Revenue Code dealing with this unique opportunity. The rules and guidelines contained in the 1031 code are strict, but with good legal and tax advisors and the assistance of a Qualified Intermediary, one can expect to participate in a tax-deferred exchange successfully and with minimal complication. The most fundamental requirement is to discover a few simple guidelines and follow them unerringly.

The two most important questions to ask yourself when contemplating a 1031 exchange: Are the relinquished property and the replacement property “like kind”? And will there be any cash proceeds or other benefits that could trigger a capital gains tax? If the first answer is “yes” and the second answer is “no”, you are on the right track. The next consideration is that you must initiate the exchange prior to closing escrow on the relinquished property.

Two very important timelines begin with the close of escrow on the relinquished property. First, potential replacement properties must be identified within 45 days and a written notification must be submitted to the Qualified Intermediary during this time period. Note that the list of identified properties cannot be changed after 45 days and one of the identified properties must be acquired. Second, the purchase of the replacement property must be completed within 180 days after close of escrow on the relinquished property.

The exchange “process” is simple. The Exchanger and the Qualified Intermediary enter into an Exchange Agreement. The Qualified Intermediary acquires the relinquished property and provides the Buyer with a deed from the Exchanger. The proceeds of sale are assigned to the Qualified Intermediary and will be held in a separate account. When directed, the Qualified Intermediary uses the funds in this account to acquire the replacement property and has it conveyed to the Exchanger via a direct deed from the owner.

The benefits of the 1031 code are only available for real estate and even then not for property acquired for re-sale. The code does not apply to stocks, bonds, securities, beneficial interests, indebtedness, inventory, partnership interests.

The Trust Department at Security Title offers superior experience, service, and financial security when your tax situation calls for a 1031 exchange. We look forward to serving you.



TRUST DEPARTMENT

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