Real Estate 1031 Exchanges

This playbook provides a guide on how to execute a 1031 exchange in real estate to defer capital gains taxes. It includes steps on understanding the qualification criteria and adhering to the necessary timing rules.

Step 1: **Criteria Check**

Determine if your property qualifies for a 1031 exchange by ensuring it's used for business or investment and is of like-kind to the replacement property.

Step 2: **Timeline Awareness**

Understand the critical timing rules: you have 45 days from the sale of your property to identify potential replacement properties and a total of 180 days to complete the exchange.

Step 3: **Choose Intermediary**

Select a qualified intermediary to hold the proceeds from the sale of your property and facilitate the exchange, ensuring that you never have direct access to the funds, which could disqualify the exchange.

Step 4: **Property Identification**

Identify possible replacement properties within the 45-day identification period, following one of the IRS's identification rules, such as the Three Property Rule or the 200% Rule.

Step 5: **Exchange Agreement**

Enter into an exchange agreement with your chosen qualified intermediary, laying out the terms of the 1031 exchange.

Step 6: **Sale and Transfer**

Sell your relinquished property and have the intermediary receive the sale proceeds; then, transfer those funds to the closing agent for the purchase of the replacement property.

Step 7: **Acquire Replacement**

Close on your replacement property within the 180-day exchange period to successfully complete the 1031 exchange.

General Notes

Consult Experts

Due to complexity, always work with a tax advisor or exchange specialist familiar with 1031 exchanges when attempting this process.