

What is a 1031 Exchange?

Section 1031 of the tax code allows owners of qualified real estate to sell a property and defer paying taxes on the gain from the sale, as long as the sale proceeds or exchange value is used to acquire **like-kind** replacement property for investment or business use.

What is a like-kind replacement property?

Generally, all real estate is like-kind to other types or kinds of real estate. For example, an apartment complex exchanged for a cell tower easement; an office building for farm land; or a rental home for water rights. Generally speaking, the only real estate that does not qualify under a 1031 exchange is a vacation home and personal primary residency.

Use of a Qualified Intermediary

To successfully complete a 1031 exchange, there are certain requirements necessary, and one of those includes the engagement of services from a professional Qualified Intermediary (QI). First Integrity 1031 Exchanges LLC is your industry partner for providing QI services in Colorado and nationally. First Integrity 1031 Exchanges LLC is supported by First Integrity Title Company, a full service title company with over 25 years of service and over 200,000 successful transactions closed.

Time Limits & Identification Requirement

A taxpayer is required to identify the target replacement property **within 45 days** after the transfer of the relinquished property. A written document that recognizably identifies the replacement property must be signed by the taxpayer and received by the Qualified Intermediary on or before the 45th day. Properties acquired within the 45-day designation period are deemed to be identified.

A taxpayer has **180 days from the date of closing** (or the due date for filing of taxes for the year the property was sold) to acquire the replacement property. For example, if the relinquished property is sold in December, the due date for the filing the tax return for that year would be less than 180 days. In such case, it would be necessary for the taxpayer to file for a tax-filing extension in order to utilize the full 180 days.

Does it make sense for me to do a 1031 exchange?

- Do you, or your entity, pay US taxes? If yes, then you may be eligible for a 1031 exchange.
- Is the SAME taxpayer that is selling the property also buying the replacement property? If yes, then you may be eligible for a 1031 exchange.
- Is the property you are selling "real property" that has been held for business or investment use (The property must be shown on the Schedule E of your tax returns)? If yes, then the property may qualify for a 1031 exchange.
- Is the property to be sold and purchased must be like-kind real property. Making sure that either property is or will not be a primary residence or vacation home. If yes, then you may be eligible for a 1031 exchange.
- Are you planning on reinvesting the full sale proceeds from the sale of your property into another property that will be held for business or investment use? If yes, then you may qualify for a 1031 exchange. However, if the answer is no, perhaps you plan to reinvest your proceeds into a second home for yourself, then the transaction would not qualify for a 1031 exchange.
- Do you plan on reinvesting all the proceeds from the sale into a new business or an investment use property? If yes, or if you plan to reinvest the majority, then a 1031 exchange might be a good fit. If you need or want to keep most of the proceeds rather than reinvest, then a 1031 exchange wouldn't provide a ton of value.
- Have you already sold your property and received the proceeds? If yes, then you no longer qualify for a 1031 exchange because you already received the gain, which is now taxable.
- From the close of the sale on your property, will you be able to identify a potential replacement property within 45 days? If you think you can achieve this, then a 1031 exchange could be a great option for you.
- Is it feasible to sell your property and acquire your new property within a 180-day period? If yes, then a 1031 exchange should be considered.

If you think you can achieve this, then a 1031 exchange could be an excellent option for you!

Contact us for more information!

Brandi Beilman | 303.837.9171 | Brandi.Beilman@FirstIntegrityTitle.com