



1031 EXCHANGES



EVERYTHING YOU NEED TO KNOW ABOUT 1031 EXCHANGES

WHAT IS A 1031 EXCHANGE?

A 1031 EXCHANGE ALLOWS REAL ESTATE INVESTORS TO DEFER ESTATE INVESTORS TO DEFER CAPITAL GAINS TAXES BY REINVESTING PROCEEDS FROM THE SALE OF ONE INVESTMENT PROPERTY INTO ANOTHER LIKE-KIND PROPERTY.

BENEFITS OF A 1031 EXCHANGE

- **TAX DEFERRAL:** DEFERS CAPITAL GAINS TAXES, ALLOWING MORE CAPITAL FOR REINVESTMENT.
- **PORTFOLIO GROWTH:** ALLOWS THE INVESTOR TO SCALE UP OR DIVERSIFY THEIR INVESTMENT PORTFOLIO.
- **ESTATE PLANNING:** PROVIDES A MECHANISM FOR ESTATE PLANNING, ALLOWING HEIRS TO INHERIT PROPERTIES AT A STEPPED-UP TAX BASIS, POTENTIALLY ELIMINATING CAPITAL GAINS TAXES ALTOGETHER.



COMMON PITFALLS TO AVOID

- MISSING THE 45-DAY OR 180-DAY DEADLINES.
- FAILING TO FOLLOW THE "LIKE-KIND" PROPERTY RULE.
- NOT USING A QUALIFIED INTERMEDIARY.
- UNDERESTIMATING TRANSACTION COSTS AND CAPITAL REQUIREMENTS.

HOW IT WORKS: STEP BY STEP

1. **SELL THE PROPERTY:** SELL AN INVESTMENT PROPERTY THAT QUALIFIES FOR THE 1031 EXCHANGE.
2. **IDENTIFY REPLACEMENT PROPERTY:** WITHIN 45 DAYS OF SELLING, YOU MUST IDENTIFY ONE OR MORE REPLACEMENT PROPERTIES.
3. **BUY REPLACEMENT PROPERTY:** COMPLETE THE PURCHASE OF THE REPLACEMENT PROPERTY WITHIN 180 DAYS OF THE SALE.
4. **DEFER CAPITAL GAINS TAXES:** CAPITAL GAINS TAXES ON THE SALE ARE DEFERRED AS LONG AS YOU REINVEST IN LIKE-KIND PROPERTY.



WHO SHOULD CONSIDER A 1031 EXCHANGE?

- **REAL ESTATE INVESTORS** LOOKING TO UPGRADE OR DIVERSIFY THEIR PORTFOLIO.
- **BUSINESS OWNERS** TRANSITIONING INTO LARGER OR DIFFERENT TYPES OF INVESTMENT PROPERTIES.
- **INVESTORS** SEEKING TO DEFER TAXES AND MAXIMIZE CASH FLOW.



KEY RULES AND REQUIREMENTS

- **LIKE-KIND PROPERTIES:** BOTH PROPERTIES MUST BE USED FOR INVESTMENT OR BUSINESS PURPOSES, NOT PERSONAL USE. THEY DON'T HAVE TO BE THE SAME TYPE OF REAL ESTATE, JUST BOTH USED FOR BUSINESS OR INVESTMENT.
- **45-DAY RULE:** THE INVESTOR HAS 45 DAYS FROM THE SALE DATE TO IDENTIFY POTENTIAL REPLACEMENT PROPERTIES.
- **180-DAY RULE:** THE REPLACEMENT PROPERTY MUST BE PURCHASED WITHIN 180 DAYS OF THE SALE OF THE ORIGINAL PROPERTY.
- **QUALIFIED INTERMEDIARY:** YOU CANNOT DIRECTLY RECEIVE THE PROCEEDS FROM THE SALE. A QUALIFIED INTERMEDIARY (QI) MUST HOLD THE FUNDS DURING THE EXCHANGE PROCESS.
- **EQUAL OR GREATER VALUE:** THE NEW PROPERTY MUST BE OF EQUAL OR GREATER VALUE TO DEFER ALL CAPITAL GAINS TAXES.
- **DEBT AND EQUITY MATCHING:** THE AMOUNT OF DEBT AND EQUITY IN THE REPLACEMENT PROPERTY MUST MATCH OR EXCEED WHAT WAS IN THE ORIGINAL PROPERTY TO AVOID TAXABLE GAINS.

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