



## 1031 Exchange Defined

Section 1031 of the IRS tax code allows investors to sell investment property and use all of the proceeds to purchase new investment property while deferring taxes associated with the sale. To qualify as an exchange, the Relinquished and Replacement Properties must be qualified "like-kind" properties and the transaction must be properly structured as an exchange. "Like-kind" Relinquished Property and Replacement Properties must be real property that has been and will be held for productive use in the investor's trade or business or for investment.

## Reasons to Exchange

There are many advantages to structuring your transaction as a 1031 Exchange.

- ✓ Defer taxes (up to 35-40% of the gain)
- ✓ Diversify or consolidate a real estate portfolio
- ✓ Switch property types
- ✓ Greater purchasing power
- ✓ Build & preserve wealth
- ✓ Expand into other real estate markets nationally
- ✓ Improve cash flow
- ✓ Greater appreciation potential
- ✓ Estate planning for heirs



## 1031 Exchange Highlights

### Russell Marsan

Senior Vice President  
russell.marsan@ipx1031.com  
Mobile 530.755.8355

[www.ipx1031.com/marsan](http://www.ipx1031.com/marsan)

**Investment Property Exchange Services, Inc.**  
a Fidelity National Financial Company **FORTUNE 500**

## The Exchange Process

- The exchanger signs a contract to sell a Relinquished Property to the buyer.
- IPX1031 and the exchanger enter into the exchange agreement to retain IPX1031 as the Qualified Intermediary and the exchanger assigns the exchanger's rights in the sale contract to IPX1031.
- At the closing of the Relinquished Property, the exchange funds are wired to IPX1031 and IPX1031 instructs the settlement officer to transfer the deed directly from the exchanger to the buyer.
- The exchanger must identify possible Replacement Properties in writing within the 45-day identification period.
- The exchanger has a maximum of 180 days in the exchange period (or until the tax filing deadline, including extensions, for the year of the sale of the Relinquished Property) to acquire all Replacement Property.
- The exchanger signs a contract to purchase the Replacement Property with the seller and the exchanger assigns the exchanger's rights in the purchase contract to IPX1031.
- At the closing of the Replacement Property, IPX1031 wires the exchange funds to complete the exchange and IPX1031 instructs the settlement officer to transfer the deed directly from the seller to the exchanger.

## Tax Benefits of Exchanges

Whether the investor's property is owned free and clear or encumbered, the benefits of a tax deferred exchange are significant. The tax dollars saved by an exchange can be utilized to purchase additional investment property.

### Compare a sale vs. an exchange with the following assumptions:

- Investor sells property with no debt for \$1,000,000
- The property has been fully depreciated and has a basis of \$100,000
- The property has been owned for more than 12 months
- Assume a combined tax rate of at least 25% (federal capital gain, depreciation recapture, net investment income tax and state)

	Exchange	Sale
Equity	\$ 1,000,000	\$ 1,000,000
Basis	\$ 100,000	\$ 100,000
Gain	\$ 900,000	\$ 900,000
Estimated Tax	\$ NONE	\$ 225,000

**RESULT:** The investor who exchanges can **defer capital gain tax and purchase Replacement Property worth at least \$225,000 more** than the investor who sells and reinvests with after-tax dollars.



# Exchange Requirements

As a general rule of thumb, to avoid paying any capital gain taxes in an exchange, the investor should always attempt to:

- 1 Purchase equal or greater in value.
- 2 Reinvest all of the equity in Replacement Property.
- 3 Obtain equal or greater debt on Replacement Property.



**EXCEPTION:** a reduction in debt can be offset with additional cash from exchanger, but increasing debt cannot offset a reduction in exchange equity.

## Calculating the Capital Gains Tax

The gain, not the profit or equity, from the sale of investment property is subject to the combination of capital gain taxes and the tax on recapture of depreciation. It is possible for an investor to have little or no equity or profit upon sale and still owe capital gain taxes. Investors should consult with their tax or legal advisors prior to entering into an exchange.

See our website at [www.ipx1031.com](http://www.ipx1031.com) for an online estimator.

## Why Choose IPX1031?

- **\$100 MILLION** Fidelity Bond Coverage
- **\$50 MILLION** Written Performance Guaranty
- **\$30 MILLION** Professional Liability Insurance
- **UNPARALLELED** Financial Strength
- Regional attorneys and experienced exchange sales and processing team
- Expertise in all exchange structures including:
  - » Simultaneous/Delayed
  - » Construction/Improvement
  - » Reverse
- Complimentary exchange consultations
- Timely document preparation
- Segregated bank accounts
- Secure accounting procedures
- Accredited exchange workshops and seminars
- Informative, educational resources
- Subsidiary of Fidelity National Financial (NYSE: FNF)

**IPX**  
1 0 3 1®

## 1031 Exchange Solutions Nationwide

### Russell Marsan

Senior Vice President

[russell.marsan@ipx1031.com](mailto:russell.marsan@ipx1031.com)

Mobile 530.755.8355

[www.ipx1031.com/marsan](http://www.ipx1031.com/marsan)

Member: Federation of Exchange Accommodators

© 2022 Investment Property Exchange Services, Inc.