

1031 EXCHANGES

KEY CONCEPTS EXPLAINED

TRADITIONAL SALE VS 1031 EXCHANGE

Traditional Sale:

If you plan to sell your investment property, the taxes could exceed 20–35% of the capital gain.

SALE PRICE

CAPITAL GAIN

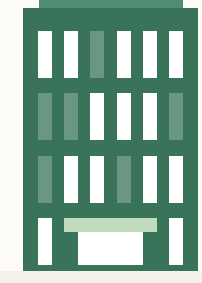
PURCHASE PRICE



Federal Taxes
Depreciation Recapture
State Taxes

1031 Exchange:

If you reinvest the proceeds from the sale of your investment property using a 1031 exchange, you can defer all of those taxes and keep 100% of your capital working for you.



GENERAL 1031 EXCHANGE RULES

1 Properties Must Be “Like Kind”

The replacement property must be “like kind” to the relinquished property. The difference in type, grade, and quality does not matter. Generally, any real estate held for business or investment purposes in the US or US Virgin Islands is considered “like kind.” An investor can exchange a commercial property for another, or a residential rental property for a commercial property, and vice versa.

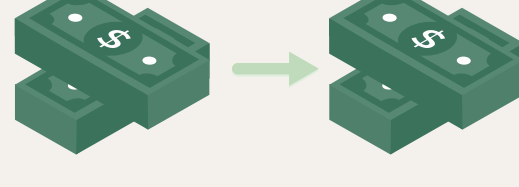


Your own personal residence and vacation home are not considered to be “like kind” to any real estate held for investment or business purposes. They can’t be used in a 1031 exchange. Other tax shelters apply to the sale of one’s personal residences.



2 All Proceeds Must Be Reinvested

The value of the replacement property must be equal to or greater than the value of the relinquished property to obtain a full deferral. You would have to pay the capital gains taxes on any of the proceeds that weren’t reinvested.



3 Titles Must Be Identical

The ownership title for the replacement property must be identical to the title for the relinquished property.

1031 EXCHANGE OVERVIEW



STEP 1 | Decide To Exchange

You need to sell your investment property but you don’t want to pay capital gains taxes, so you decide to complete a 1031 exchange.



STEP 2 | Sell Property

When you relinquish your property, you can’t take receipt of the proceeds, so you will have the funds held by a Qualified Intermediary.



STEP 4 | Buy Property

Once you decide which of the identified properties to acquire, the Qualified Intermediary will forward the funds for the closing.

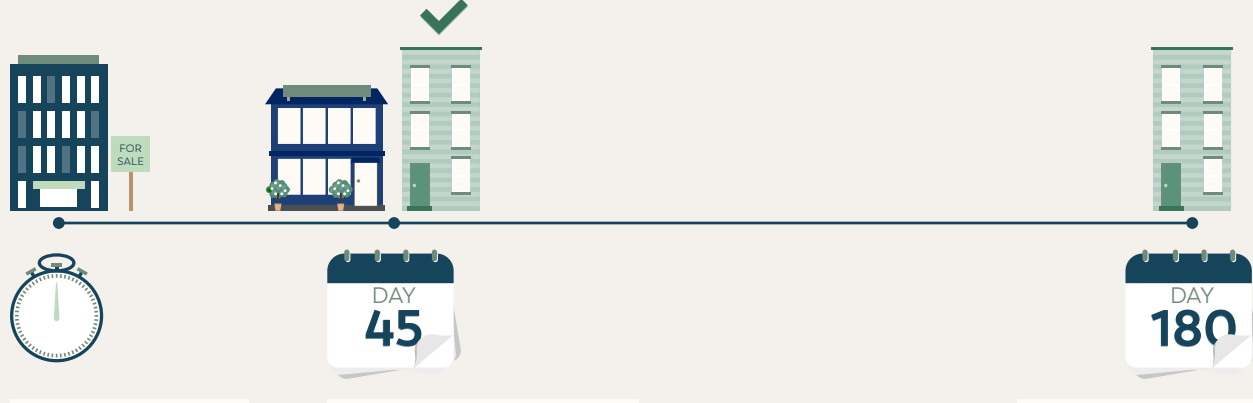


STEP 3 | Identify Property

Once the Qualified Intermediary holds the sale proceeds, you’ll work with your broker or investment advisor to find suitable replacement properties.

THE 1031 EXCHANGE TIMELINE

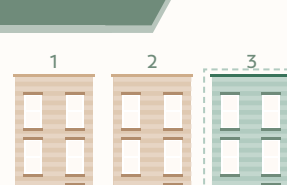
Once you close escrow on the sale of your investment or business property, the countdown starts. You have 45 calendar days to identify possible replacement properties and 180 total calendar days to close escrow on your replacement property. The countdown includes weekends and holidays. The IRS is very strict about those deadlines.



PROPERTY IDENTIFICATION RULES

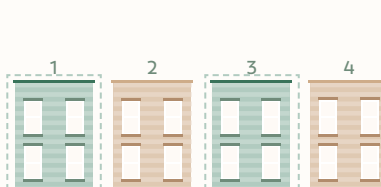
3-Property Rule

You may identify up to three potential replacement properties and purchase any (or all) of them, regardless of their total value, to complete any exchange.



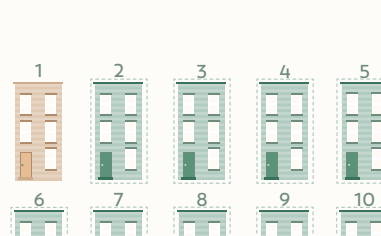
200% Rule

You may identify more than three potential replacement properties if their total value does not exceed 200% of the value of your relinquished property. You may purchase as many of the identified properties as you want.



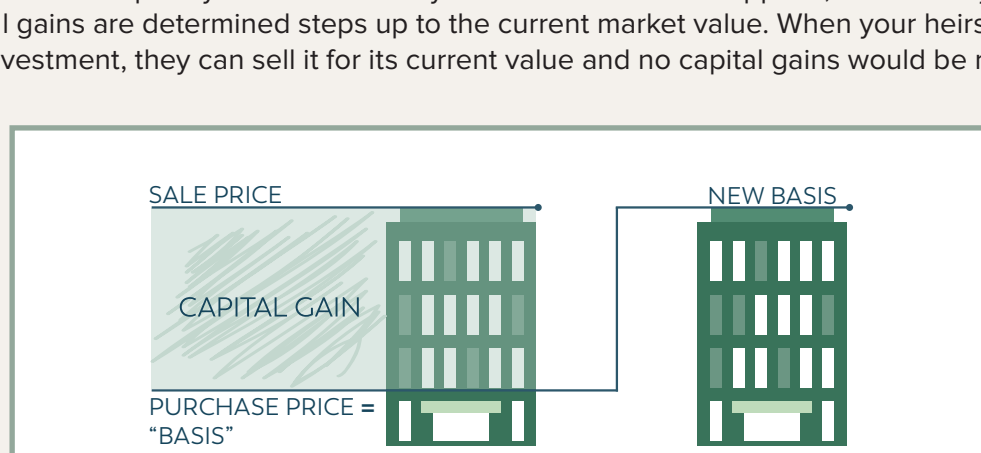
95% Rule

If neither of the other rules suits your needs, you may identify any number of potential replacement properties regardless of their total value so long as you purchase 95% of the total value of all of the identified properties.



BENEFITING YOUR HEIRS

You can continue to defer your capital gains taxes using the 1031 exchange process until it becomes time to pass your assets on to your heirs. When that happens, the basis by which the capital gains are determined steps up to the current market value. When your heirs inherit the investment, they can sell it for its current value and no capital gains would be recognized.



Trinity REIS, LLC is not qualified to provide, and has not been contracted to provide, legal, financial, or tax advice, and that any such advice regarding any investment by the recipients must be obtained from the recipients’ attorney, accountant, or tax professional.

