

Five Reasons to Exchange

Investors Can Meet Many Objectives Under IRC §1031

1031

Knowledge



Section 1031 tax-deferred exchanges are a popular tax-deferral strategy for business owners and taxpayers who want to accomplish a wide range of business and/or investment objectives including some of the following:

1. **Preservation of Equity** - A properly structured 1031 exchange provides taxpayers the opportunity to defer 100% of both federal and/or state capital gain taxes, as well as depreciation recapture taxes. This essentially equals an interest-free, no-term loan on taxes due until the property is ultimately sold for cash.
2. **Leverage** - Many taxpayers exchange from a property where they have a high-equity position or one that is "free and clear" into a larger and more valuable property. A larger property often provides a better return on investment with more cash flow and additional depreciation benefits.
3. **Diversification** - Taxpayers have a number of opportunities for diversification through exchanges. One option is to diversify into another geographic region, such as exchanging from one multi-family property in Denver, Colorado, and acquiring two additional multi-family replacement properties – one in Los Angeles, California, and the other in Dallas, Texas. Another diversification alternative is acquiring an asset class such as exchanging out of several single-family residential properties into a small retail strip center as the replacement property.
4. **Management Relief** - Many taxpayers acquire multiple single-family rental properties over the years. The ongoing maintenance and management of what can be a far-reaching group of single-family properties can be lessened by exchanging these properties at different locations for one replacement property better suited to on-site maintenance and management. Performing a 1031 exchange into a single multi-family with a resident manager is a good example of this strategy.
5. **Estate Planning** - Often a number of family members inherit one large property and disagree about what they want to do with the property recently inherited. Some family members may want to continue holding the property and some may opt to sell the investment property for the cash proceeds. By exchanging from one large relinquished property and into several smaller replacement properties while the taxpayer is alive, the taxpayer can designate after their death that each heir receives a different property which they can own individually and either hold or sell to meet their needs.

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