

# HOTEL OWNERS

## "USE §1031 EXCHANGE TO INCREASE INVESTMENT RETURNS"



### Compliments of

### WHAT IS A 1031 EXCHANGE?

Section 1031 of the Internal Revenue Code (IRC) allows an owner of any business or investment property to defer paying federal and state capital gain taxes and depreciation recapture if they purchase a "like-kind" property following the rules and regulations of the tax code. The real power of a tax deferred exchange is not just this tax savings — it is the tremendous increase in purchasing power generated by this tax savings! An exchange allows hotel investors to use all of their sale proceeds to leverage into more valuable real estate, diversify into other properties, increase cash flow and investment returns or consolidate into a larger property.

### IRC SECTION 1031

IRC Section 1031 states that *"no gain or loss shall be recognized on the exchange of property held for productive use in a trade or business or for investment if such property is exchanged solely for property of like kind which is to be held either for productive use in a trade or business or for investment."*

### NUMEROUS EXCHANGE STRATEGIES

Hotel investors have a number of options available:

- Delayed Exchange: Provides up to 180 days to acquire another replacement property.
- Reverse Exchange: Gives investors the option to purchase a desirable replacement property before selling the hotel they currently own.
- Improvement Exchange: Either construct a new hotel or rehabilitate an existing one -- all with tax deferred dollars!

### HOTEL EXCHANGE CONSIDERATIONS

When exchanging a hotel, the owner must be sure they are exchanging "like-kind" real property for other "like-kind" real property. "Like-kind" or "like-class" personal property must also be exchanged for equivalent personal property.

- The requirements for exchanges of personal property are far more restrictive than for real property. These rules establish 13 different asset classes. For example, dryers and washing machines can be exchanged for other dryers or washing machines at a new property but not for personal property in another asset class.
- Another factor in hotel transactions is that the allocation in the contract attributed to "goodwill" does not qualify for tax deferral.

Investors performing a hotel exchange should always work closely with an attorney or CPA to ensure the transaction is structured properly. Call Asset Preservation toll-free to discuss the additional complexities involved in the exchange of hotel properties.



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