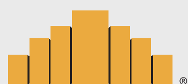
AN INTRODUCTION TO THE BENEFITS OF §1031 TAX DEFERRED EXCHANGES

Compliments of



ASSET PRESERVATION®
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National IRC §1031 "Qualified Intermediary"

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Template # 6 (Part 2)

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Requirement #3: Close on the replacement property by the earliest of either: 180 calendar days after closing on the sale of the relinquished property or the due date for filing the tax return for the year in which the relinquished property was sold (unless an automatic filing-extension has been obtained). Example: If an Exchanger closes on the relinquished property on December 27, the exchange period will end on April 15 (assuming this is the due date for their tax return). In this case, they would have to close on the replacement property (or file the appropriate extension) by April 15. Exchangers may choose to close both transactions within a shorter period of time, thereby avoiding the potential hardship of the 45/180 day time limits.

Requirement #4: The most common exchange format, the delayed exchange, requires investors to work with an IRS-approved middleman called a "Qualified Intermediary." The Qualified Intermediary documents the exchange by preparing the necessary paperwork (Exchange Agreement and other documents), holding proceeds on behalf of the Exchanger, and structuring the sale of the relinquished property and purchase of the replacement property.

Note: To defer all capital gain taxes, an Exchanger must buy a property or properties of equal or greater value (net of closing costs), reinvesting all net proceeds from the sale of the relinquished property. Any funds not reinvested, or any reduction in debt liabilities not made up for with additional cash from the Exchanger, is considered "boot" and is taxable. Example: Stewart sells his duplex, which he held for investment, for $160,000. A hundred calendar days later he closes on a different duplex, which he will hold for investment, for $110,000. Stewart receives the $50,000 in excess funds for his child's education. Stewart must pay capital gain taxes on $50,000. (In this example, Stewart chose to take some money out of his exchange and pay the capital gain taxes.)

WHEN ARE CAPITAL GAIN TAXES PAID?

Maybe never. Many investors mistakenly believe they will "have to pay the taxes sometime" so they might as well just sell. Quite often, this is a bad investment decision. The tax on an exchange is deferred into the future and is only recognized when an investor actually sells the property for cash instead of performing an exchange. Investors can continue to exchange properties as often and for as long as they wish, thus moving up to better investments and putting off the taxes for many years.

To learn more:

1) Call Asset Preservation toll-free at 800-282-1031

2) Visit API's website at www.apiexchange.com.