

How to do a 1031 Exchange

1031 exchanges enable you to reduce or eliminate taxes on the sale of business or investment real estate. If you want to sell one business or investment property and purchase a “like-kind” property within 180 days of the sale, structuring these two transactions as a 1031 exchange can enable you to avoid capital gains tax, depreciation recapture tax, and even sales tax. Using a qualified intermediary (QI) converts the sale and the purchase into an exchange and creates the opportunity for tax deferral.

The 1031 Forward Exchange Process

Forward exchanges are the most frequently used type of 1031 exchange because of their versatility and their ease and speed of implementation. Forward exchanges are characterized by the sale of the currently owned property (relinquished property) followed by (or simultaneous with) the purchase of the new property (replacement property).

- Prior to the sale of the relinquished property, the exchanger and the QI enter into an exchange agreement and set up a qualified escrow account at a secure bank to hold the sales proceeds. Upon the sale of the relinquished property, the sales proceeds are wired to the qualified escrow account, which allows distributions only when authorized by both the exchanger and the QI. The funds are held in escrow until they are disbursed to buy the replacement property.
- The exchanger has 45 days to identify a replacement property in writing or to acquire a replacement property without a written identification. If a written identification is made, the client has 180 days from the date of the sale of the relinquished property to complete the purchase of the replacement property.

The 1031 Reverse Exchange Process

A 1031 reverse exchange provides the same tax benefits as a 1031 forward exchange, but with one major difference: a reverse exchange enables you to buy first and then sell.

The IRS has issued guidance to provide “safe harbors” that enable exchangers to structure successful 1031 reverse exchanges. There are two basic types of reverse exchange:

- **Exchange Last**, the most common form of reverse exchange, in which the QI acquires title to the replacement property and “parks” it until the relinquished property can be sold.
- **Exchange First**, in which the QI acquires title to the relinquished property, as part of the exchange in which the exchanger acquires the replacement property, and “parks” it until the relinquished property can be sold.

In an “Exchange Last” transaction, the exchanger has 45 days after the replacement property is parked to identify their relinquished property in writing or to sell their relinquished property without a written identification.

If a written identification is made, the client has 180 days from the parking of the replacement property to complete the sale of the relinquished property.

Still Have Questions?

At JTC Americas, we've put together an industry-leading track record of 1031 success, with tens of thousands of transactions and more than 25 years in the business. Members of our legal and Client Services team have decades of experience handling 1031 exchanges and we've built a cutting-edge administration platform, called eSTAC®, from the ground up to maximize transaction security, transparency, and compliance.

If you're considering a real estate exchange, please don't hesitate to contact us at www.sanchezriveratitle.com or www.jtcamericas.com.

About JTC Americas (formerly NES Financial)

JTC Americas, formerly NES Financial, is the North American division of JTC. JTC is a publicly listed, global professional services business with deep expertise in fund, corporate and private client services. JTC Americas is a leader in specialty financial administration, serving US markets characterized by high administrative complexity, elevated transaction security needs and challenging compliance requirements.

About Sanchez & Rivera Title, LLC

Since 1995, Sanchez & Rivera Title has become the Title Insurance Company of choice for clients seeking financial stability and personal service. Sanchez & Rivera Title's attention to detail and personal service has been the foundation of the company's success and continued expansion.

For more information, www.sanchezriveratitle.com