

What Do You Need From Your Real Estate Investment?

- INCREASE REVENUE
- DECREASE EXPENSES
- ENHANCE TAX PLANNING FLEXIBILITY

A §1031 Like-Kind Exchange can provide these and other benefits.



- Terms**
- **§1031:** Refers to the section of the Federal tax code that governs like-kind exchanges.
 - **Like-Kind Exchange:** A set of transactions in which property (real or otherwise) is sold and the proceeds reinvested in similar property with equal or greater value.
 - **Relinquished Property:** The property you are selling.
 - **Replacement Property:** The property you are buying.

Timeline ▪ There are general rules for completing a §1031 like-kind exchange:

Day 1 ▶
Relinquished Property is sold.

Day 45 ▶
Replacement Property identification period ends.

Day 180* ■
Replacement Property is acquired.
** or by tax return due date, whichever is earlier*

Team

A **§1031 LIKE-KIND EXCHANGE** is a multi-part transaction and adherence to the rules is essential. That is why you need the right team on your side.

- **Broker:** While marketing your current properties, an experienced real estate broker can provide you with a market analysis and strategy for maximizing value.
- **Attorney:** As the marketing process begins, your attorney can help coordinate the other team members to help ensure that your exchange complies with applicable federal and state laws and regulations.
- **CPA:** A specialist CPA can help calculate financial scenarios for utilizing the proceeds of the sale. A CPA can also provide a detailed analysis before you make a final decision regarding the sale of your property and identification of replacement properties.
- **Intermediary:** Because the sale of your relinquished property is typically not simultaneous with the acquisition of replacement properties, it will be necessary for a qualified intermediary to hold the proceeds from the sale that will be used to acquire the replacement property.
- **Lender:** If you desire a fully tax-deferred exchange, it may be necessary to obtain a loan so that the fair market value of the replacement property(ies) is equal to or greater than the fair market value of the relinquished property.

THE §1031 LIKE-KIND EXCHANGE TAX DEFERRAL ADVANTAGE

The following hypothetical example broadly shows the potential advantages of unlocking and reinvesting capital through a §1031 like-kind exchange. The full §1031 exchange (center column) is contrasted with a straight sale (left column) and partial/50% §1031 exchange (right column).

ESTIMATED COSTS AND ASSETS	SALE WITHOUT §1031 EXCHANGE	SALE WITH FULL §1031 EXCHANGE	SALE WITH 50% §1031 EXCHANGE
Sale Price	4,000,000	4,000,000	4,000,000
Estimated Closing Costs ⁱ	(380,000)	(380,000)	(380,000)
Seller's Hypothetical Basis ⁱⁱ	(820,000)	(820,000)	(820,000)
Seller's Hypothetical Taxable Gain	2,800,000	n/a	1,620,000
Estimated Federal Capital Gains & NIIT ⁱⁱⁱ	(665,000)	n/a	(380,000)
Estimated NYS/NYC Capital Gains ^{iv}	(354,000)	n/a	(204,000)
Estimated Total Tax Due	1,019,000	ZERO	584,000
Estimated Cost of Exchange ^v	n/a	40,000	20,000
Total Cash and Assets after Transaction	\$2,601,000	\$4,000,000^{vi}	\$3,036,000

ESTIMATED INCOME FOR 1 YEAR AFTER SALE			
1 year T-bill @ .12%	\$3,121	n/a	\$1,243
Income if Triple Net Lease (5.0% CAP)	n/a	\$ 200,000	\$ 100,000
Income if Triple Net Lease (5.5% CAP)	n/a	\$ 220,000	\$ 110,000
Income if Triple Net Lease (6.0% CAP)	n/a	\$ 240,000	\$ 120,000

ⁱEstimated closing costs include real estate broker commissions, state and local transfer taxes, attorneys' fees, and any fees associated with liens and violations. This example number assumes no debt on the property.

ⁱⁱThe hypothetical cost basis includes the purchase price, together with the closing costs and capital improvements.

ⁱⁱⁱThis estimate is based on the current top capital gains and Net Investment Income Tax (NIIT) rates and is subject to change.

^{iv}See note ⁱⁱⁱ.

^vThe closing costs may include structural and environmental engineering reports, fees associated with obtaining financing, attorneys' fees, accounting or other fees, and qualified intermediary fees.

^{vi}To realize the full tax benefits of a §1031 exchange, the fair market value of the replacement property(ies) must have a value equal to or greater than that of the relinquished property. Any deficiency — for example the closing costs of the relinquished property — is typically made up with loans or the taxpayer's own funds.

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