WHAT IS A 1031 EXCHANGE?

A tax-deferred exchange allows a taxpayer to preserve wealth through reinvestment in "like-kind" assets. ***It's a powerful tool - a tool that can work to your financial advantage.***

When you sell your interest in investment property, you may incur federal capital gains taxes and, in some states, state taxes as well. Your attorney, tax advisor, or real estate professional may suggest a tax-deferred exchange under Section 1031 of the Internal Revenue Code. IRC Section 1031 (a)(1) states:

> *"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."*

A tax-deferred exchange allows you to dispose of business or investment properties and acquire "like-kind" properties while deferring federal capital gains taxes and depreciation recapture. Most states with a capital gain tax offer a similar tax deferral as well.

To understand the powerful benefit a 1031 exchange offers, consider the following example:

- An investor has a $250,000 capital gain and incurs a tax liability of approximately $75,000 in combined taxes (depreciation recapture, federal and state capital gain taxes) when the property is sold. Only $175,000 remains to reinvest in another property.

As the above example demonstrates, exchanges protect investors from capital gain taxes as well as facilitating significant portfolio growth and increased return on investment. It also allows investors to use all of their proceeds from their sale to leverage into more valuable like-kind property, increase cash flow, diversify into other properties, reduce management or consolidate into one property. **Bottom line: a tax-deferred exchange allows you to reinvest sales proceeds that would otherwise be paid to the government in the form of taxes.**