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The next wave in real estate exchanging: Owners looking for ways to restructure portfolios

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Yes, even in this economy, IRC Section 1031 Exchanges are happening! Recently investors have taken a step back to review their portfolios and revise their strategies for maximizing their return on investments. As for real estate, appreciation is not the golden ticket it once was as a reason to hold property, and as such owners are analyzing their properties, looking for ways to restructure portfolios and improve cash flow.

Looking at the bigger picture, utilizing a 1031 Tax Deferred Exchange now to reposition assets may afford the investor greater cash flow and appreciation over time. Exchanging at the time of sale allows the taxpayer to keep more of their money working for them, rolling it into new property which may be a better purchase now with the added incentive the value will grow over time, affording greater gains in future years.

Sales prices are not as high as they once were, however there's likely some gain unless the property was purchased at the market's height. Few advisors feel investors should "just pay the tax - it's the lowest it will be"...because it's not just the 15%...Even if a sale this year triggers little to no gain on the property, there is still the payment due of depreciation recapture tax - cost recovery to the IRS.

long with the Federal Capital Gains Tax, Federal Depreciation Recapture Tax (25%) and applicable State Capital Gains Tax (5-10%) is realized upon disposition. Additionally, many states institute a non-residence withholding tax; and let's not forget the Alternative Minimum Tax (AMT) - the receipt of gain from a sale could push the taxpayer into a situation where their AMT exemption is eliminated. By enacting a 1031 Exchange, all these taxes could be deferred!

In addition to real estate, sales with a personal property component may be subject to substantial recapture tax, upwards of 35%. Those selling multiple asset properties such as hotels, restaurants or gas stations often structure several exchanges to accommodate the real and personal property components. Beneficial since they are generally owned under different entities, and the deferred gain and basis calculations may be different.

Has your client done a Cost Segregation of the property? Beneficial at the time, but subsequent sale of that property may trigger larger amount to recapture...all can be deferred with a 1031 Exchange!

Stand-alone business or personal property assets able to be exchanged may include equipment, charter boats, fishing vessels, planes, trucks, construction or agriculture equipment, artwork and collections, as well as intangible property, such as franchise licenses, sales routes, broadcast

spectrums or copyrights.

Other creative tax strategies include Reverse Exchanges, which may be the answer if the investor finds new replacement property first and must close before the other property sells; or if the property being sold fails to close on time and the new property purchase cannot be postponed.

Build-to-Suit (aka Construction/Improvement) Exchanges allows investors the opportunity to either renovate an existing improved property or construct new improvements on raw land as part of their replacement property.

Think there is no need to exchange? Think again...IRC 1031 Exchanges are vital to professionals looking to expand their client base and grow their business - a working knowledge is essential to create opportunities for advisors and their clients. As well, IRC 1031 Exchanges are vital to investors looking for options to reposition assets, generate more cash flow, protect their estate and of course, not pay taxes!

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