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Looking back and looking forward with Section 1031 Tax Deferred Exchanges

January 30, 2014 - Spotlights

Rising real estate values, higher tax rates and new taxes were some of the reasons that 2013 saw a sharp increase in the number of Section 1031 Tax Deferred Exchanges. As a Qualified Intermediary (QI) handling these transactions, we saw a large number of property owners, from commercial to industrial, residential to retail, take advantage of the huge tax savings on capital gains and recapture tax by participating in a 1031 Exchange.

Those who deferred taxes via an IRC Section 1031 Exchange in 2013 must remember to file IRS Form 8824 with their tax return. We can provide exchangers with the IRS instructions and the form, as well as pertinent information needed to complete the submission. Taxpayers are required to report their Exchange on the tax return for the year in which the exchange begins.

For those who sold relinquished property after mid-October, Day 180, the deadline to complete replacement property purchases in an exchange, comes after April 15th, the tax due date for calendar year filers. Those taxpayers are permitted to file an extension on their tax return, to give them the full exchange period allowed to take title to the replacement property with the deferral.

Looking forward, if the strong start we have seen in the Northeast this January is any indication, 2014 promises to be another robust year for 1031 Exchanges. As investors seek creative ways to preserve their equity and attain their property investment goals, proper guidance and planning becomes increasingly crucial.

Although the Qualified Intermediary's main focus is to actually facilitate the exchange portion of the sale or purchase, much of the QI role takes place prior to the exchange itself. As a resource, IPX1031Â® participates in the meetings. Consultations take place with brokers, legal and tax advisors to map out a strategy for precision timing and maximum tax savings to meet clients' investment goals.

When real estate professionals are brought in to analyze property and determine the right time to sell, a number of factors are taken into consideration. Are they looking to downsize or diversify their portfolio? How will the appreciation, depreciation and cash-flow affect the outcome? What will the tax consequences be for selling? These are all important drivers, and upon examination a tax deferred exchange just may be the option necessary to accomplish their objectives.

Investors utilize the 1031 Exchange business strategy to defer paying taxes when selling either real or personal property assets. Land and buildings, leasehold and tenant-in-common interests, business and construction equipment, oil and gas royalties and patents - they all qualify as long as exchanged for like-kind.

Investigation and proper planning now will pave the way for a smoother transaction in the year to

come. As a Qualified Intermediary, we are a key resource to the tax, legal and real estate communities, providing experience and knowledge in the 1031 arena.
With the tax law changes implemented in 2013, and property values on the upswing in 2014, an understanding of Section 1031 is essential to creating opportunities for advisors and for investors looking for options to reposition assets, generate more cash flow and protect estates. Rather than paying taxes, investors keep their equity working for them!

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