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Exchangers keep real estate moving

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Have you been feeling it? We have! Real estate transactions have been up considerably in the last 1 ½ years and a large percentage of those have been 1031 Exchanges. When speaking to our clients, the high volume of exchanges can be attributed to a number of reasons.

As real estate becomes more stable, investors are starting to look for ways to change or build upon their portfolios. Properties that had been stable investments through the recent downturn are now showing significant appreciation and equity. Since multiple properties can be acquired through a single Tax Deferred Exchange, investors can diversify their real estate portfolio, thereby hedging the investment risk inherent in a single property. These replacement properties can offer greater income and long-term appreciation potential.

For some, it's all about the taxes: Last year the Affordable Healthcare Act imposed a new 3.8% tax on certain investment income, including capital gains, for those with an Adjusted Gross income of over a certain threshold. Additionally, the American Taxpayer Relief Act raised the top long-term capital gains rate from 15% to 20% for those with higher taxable income. Both of these, combined with the 25% Depreciation Recapture Tax, cause a substantially greater amount of equity to be due to the Federal Government at tax time. Exchanges are quite valuable to investors to preserve their equity!

For others, Exchanging is an estate planning tool: Investors want the income and benefits of ownership while they are alive, but want the property and hard-earned equity to pass on to their heirs upon death. When a taxpayer dies, the estate receives a stepped up basis in the inherited property. As a result, all of the built in gain disappears upon the taxpayer's death. This taxpayer could have exchanged multiple times during their lifetime, leaving their heirs with a sizable benefit that would have otherwise been greatly reduced if the taxpayer had sold the property outright, paid the taxes and just given the remaining cash to the future heirs. Consulting with an advisor ahead of time makes these strategies excellent opportunities for a 1031 Exchange, and for all those involved in the real estate transaction.

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