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Considering an IRC 1031 tax deferred exchange? Seven great reasons to exchange - by Tina Pashovich

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While avoiding those steep capital gains taxes are, for most, the primary consideration for engaging in a 1031 tax deferred exchange, there are many other significant advantages to a tax deferred exchange:

1. Replace non-income producing property with income producing property;
2. Diversify property interests for estate planning purposes;
3. Replace time consuming management properties with more easily managed properties;
4. Exchange into property that can accommodate the taxpayer's trade or business (ex. taxpayer who owns apartment complex can trade into manufacturing plant);
5. Exchange fully depreciated property to obtain the benefit of a new depreciation schedule;
6. Relocation of taxpayer's business;
7. Relocation of investment property to accomplish ease of management.

In a tax deferred exchange, under Internal Revenue Code Section 1031, an owner can defer capital gain taxes by exchanging property held for investment or used for productive use in a trade or business for other property that will also be held by them for investment purposes or for productive use in a trade or business.

“Like-Kind” – A Commonly Misunderstood Term

Any type of real property – except for the person's primary residence – can qualify for a tax deferred exchange. Although the rules for exchanges require that the property sold and the property acquired are “like kind” to one another, it is important to understand that “like kind” does not mean that the property sold, and the property acquired must share the same physical characteristics. In other words, an apartment building need not be exchanged for another apartment building. It can be exchanged for raw land; a farm; a duplex; retail property; a leasehold of 30 years or more, etc.

Instead, “like kind” simply refers to the requirement that the property “held for investment or for productive use in a trade or business” must be exchanged for other property that is also “held for investment or for productive use in a trade or business.”

Owners of investment property should be confident that there are many alternatives, if they wish to replace their current investment property with another type of real estate.

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