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What do I need to buy a fully tax-deferred 1031 exchange? - by Bill Lopriore

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Equal or Greater in Value and Equity

A common question from taxpayers is “How much do I have to buy in order to defer my taxes?” While it’s important to have your tax advisor determine this, there is a shorthand way to figure out whether the purchase you are contemplating will be enough to successfully complete your exchange.

To structure a fully tax-deferred exchange, you must do two things. First, you must acquire replacement property that is equal to or greater in value than the relinquished property. Additionally, you must invest all net cash that you get from the sale in the replacement property.

Trading Down

If you acquire replacement property that is valued less than the relinquished property and/or if you do not invest all of the net cash from the relinquished property into the replacement property, you still may benefit from a partial exchange. You may be able to defer some tax, but will also owe some tax on the transaction. However, if you trade down too much in value or equity, it may not be worthwhile to do an exchange. As mentioned above, it is important to have your tax advisor review your numbers.

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