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2020 was yet again another record year for 1031 exchanges. What's in store for 2021? - by Patty Flowers

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IPX1031 Exchange

Commercial real estate is predicted to have a mixed forecast in 2021 with certain sectors, such as industrial, experiencing robust growth while others continue to struggle. With low interest rates expected to continue and the economy recovering, many CRE sectors should normalize by mid to late 2021 if the vaccines are widely available.

Another strong year for 1031 Tax Deferred Exchange transactional activity is anticipated in 2021. Two factors will drive significant activity. First, borrowing rates remain historically low. Second, the pandemic has created an unprecedented need to repurpose and renovate commercial real estate to meet post-pandemic business models.

Particularly impacted are office, retail and hotel properties, given the successes of widespread working from home and use of virtual meeting technology. Even multi-family and single-family rental properties now need space for use as a home office.

Section 1031 Like-Kind Exchanges provide incentive for owners who are not in a position to make significant building modifications to instead transfer properties into the hands of buyers willing and able to invest fresh capital and take these properties to their highest and best use for future tenant needs.

Given the dueling pandemic and economic crises, major tax reform does not appear to be a current priority of the new Administration. Nevertheless, the need to pay for pandemic relief and new legislative initiatives could make Section 1031 a target for tax revenue seekers. IPX1031 company efforts to educate our policy makers to the legitimate, economically important benefits of Section 1031 will continue throughout 2021.

Trends we see emerging

in 2021 include:

- Continued 1031 growth in industrial, self-storage, R&D, medical/office, and multi-family sectors.
- Individual exchangers will continue to sell investment property and purchase qualified replacement property in warmer climates or other locations that typically offer higher vacation rental income.
- Reverse Exchange structure momentum has been quite strong in the last few years and will continue to be a valuable tool as long as there continues to be a shortage of inventory. Exchangers will look to secure the new property first in order to alleviate the concerns of finding suitable replacement within the short 45 day timeline in this competitive buyer's market.
- An uptick in build-to-suit/improvement exchanges in which clients are willing to purchase investment property of lower value and/or some distress, making immediate improvements with exchanged sale proceeds. This increases the likelihood of tax deferred treatment at 100% and brings added value to the property, preserving equity with the probability of greater income potential.
- Retirement & estate planning advantages for exchanged property continue to motivate investors and drive a good portion of exchange activity.

With expected recovery and overall growth in investment and commercial real estate transactions, we are forecasting another strong year for 1031 Tax Deferred Exchange activity.

2021 Capital Gains Tax Brackets:

2017 tax reform indexed the Long-Term Capital Gain rate breakpoints (whether a 15% or 20% rate) to inflation. The rates didn't change for 2021, but the income brackets did adjust. The breakpoints for 2021 are as follows: married filing jointly \$501,601+ and single filers \$445,851+. Note that the capital gains brackets are based on "Taxable Income" whereas the Net Investment Income Tax thresholds are based on "Adjusted Gross Income".

Tax Straddling: Pay Taxes

in 2021 or 2022?

If your transaction closed at the end of 2020 and you were unable to find new property to identify, or unable to purchase the property that you have identified, you may still be able to defer paying taxes on your capital gains until 2021! Since you will receive your unused 1031 funds back in 2021, in certain circumstances, since you did not have control/possession of your funds until 2021, the IRS may allow you to push paying taxes out to your 2021 tax return, which are due in 2022. This is in accordance with IRC Section 453(d) and requires your accountant to file specific tax forms. Ask your tax advisor if you are able to take advantage of this "mini" tax deferral!

Choose the experts: IPX1031 focuses solely on 1031 Tax Deferred Like Kind Exchanges. As a

national leader, IPX1031 has the financial assurances, security and expertise essentials to protect your funds, provide answers and guidance throughout the exchange process. When you choose IPX1031 as your Qualified Intermediary, you can be confident that your exchange will be facilitated in a professional manner and that your funds will be safe, secure and available when needed.

Especially now while the interest rates on financing are low and favorable, taxpayers are maximizing their 1031 tax deferral potential to grow their portfolios by selling while prices are high, then preserving their equity by using all proceeds to exchange into the purchase of larger or multiple replacement properties...a great investment strategy!

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