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## **Five reasons to use a section 1031 exchange - by Lynne Bagby**

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Lynne Bagby

Section 1031 tax-deferred exchanges continue to be a popular tax-deferral strategy for business owners and taxpayers not only throughout the New England states, but nationally for those who want to accomplish a wide range of business and/or investment objectives including some of the following:

1. Preservation of Equity - A properly structured 1031 exchange provides taxpayers the opportunity to defer 100% of both federal and/or state capital gain taxes, as well as depreciation recapture taxes. This essentially equals an interest-free, no-term loan on taxes due until the property is ultimately sold for cash.

2. Leverage - Many taxpayers exchange from a property where they have a high-equity position or one that is "free and clear" into a larger and more valuable property. A larger property often provides a better return on investment with more cash flow and additional depreciation benefits.

3. Diversification - Taxpayers have a number of opportunities for diversification through exchanges. One option is to diversify into another geographic region, such as exchanging from one multifamily property in Boston, and acquiring two additional multi-family replacement properties – one in Manchester, NH and the other in Portland, ME. Another diversification alternative is acquiring an asset class such as exchanging out of several single-family residential properties into a small retail strip center as the replacement property.

4. Management Relief - Many taxpayers acquire multiple single-family rental properties over the years. The on-going maintenance and management of what can be a far-reaching group of single-family properties can be lessened by exchanging these properties at different locations for one replacement property better suited to on-site maintenance and management. Performing a 1031 exchange into a single multi-family with a resident manager is a good example of this strategy.

5. Estate Planning - Often a number of family members inherit one large property and disagree about what they want to do with the property recently inherited. Some family members may want to continue holding the property and some may opt to sell the investment property for the cash proceeds. By exchanging from one large, relinquished property and into several smaller replacement properties while the taxpayer is alive, the taxpayer can designate after their death that each heir receives a different property which they can own individually and either hold or sell to meet their needs.

As always, an investor should thoroughly discuss their intentions with their tax professionals and appropriate legal counsel to determine the best investment and tax -planning strategies to assist them in achieving their goals.

Lynne Bagby is the New England division manager of Asset Preservation, Inc, and a Certified

Exchange Specialist (CES), Boston, Mass.

New England Real Estate Journal - 17 Accord Park Drive #207, Norwell MA 02061 - (781) 878-4540