

R E a d v i s o r



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1031 Exchanges.. A Powerful Tax Planning Tool

Overview: *Generally, if you exchange business or investment property solely for business or investment property of a like-kind, no gain or loss is recognized under Internal Revenue Code Section 1031. If, as part of the exchange, you also receive other (not like-kind) property or money, gain is recognized to the extent of the other property and money received, but a loss is not recognized.*

Selling a real estate property can help diversify your investment portfolio and can provide relief from the everyday management of the property. However, the gain from the sale of property generally triggers tax consequences. The use of a 1031 Exchange can provide the benefits of the property sale without the tax burden.

While every Section 1031 is unique, general principles will apply for all.

The following examples demonstrate how a like kind exchange provides a viable exit strategy for real estate holdings while avoiding the income tax bite:

- 1) Management burdens can be reduced or eliminated by exchanging current managed real estate for property that is managed by a third party. Tenant In Common interests (TIC's) are a great vehicle to accomplish this goal.
- 2) Since all forms of real estate are like kind to each other, an exchange can assist in diversifying a real estate portfolio across all types of real estate. (e.g. office, retail, multi-family, etc.).
- 3) An exchange can assist in estate planning. For example, exchange one large property for several small properties to distribute to family members.
- 4) Property can be acquired in an exchange that is suitable for future conversion to a personal residence.

Generally, to obtain 100% deferral of a gain in a like kind exchange, the following must occur:

- 1) Purchase property must be of greater or equal value;
- 2) Debt secured on the new property must be greater than or equal to the debt on the old property.
- 3) All proceeds on the sale of the old property must be reinvested into the new property.
- 4) Both properties must be used in a trade or business or for investment.

There are several pitfalls which should be avoided. If the exchange takes longer than 180 days, the Exchange is outside the safe harbor. Therefore, investors must be diligent in their planning. Also, funds from the sale can only be withdrawn in accordance with applicable regulations, and no money can be received by the seller until the exchange is completed.

For information on how you can maximize the potential benefits of a 1031 Exchange, please contact Chris Jones.

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