PRA Penn Realty Advisors, Inc. Investments

§1031 Exchange

A §1031 tax-deferred exchange preserves equity and may indefinitely defer capital gains taxes, provided you comply with strict IRS guidelines. Four parties are involved:

- **The Exchanger** The party initiating an exchange to defer capital gains taxes on a relinquished property.
- **The Buyer** The party acquiring the Exchanger's property.
- **The Seller** The party selling a replacement property to the Exchanger.
- **The Qualified Intermediary (Accommodator)** The third-party entity holding the Exchanger's sale proceeds for future disbursement upon the close of the replacement property acquisition.

Planning for your exchange is essential to its success. Call your sponsor or broker as early as possible to develop your §1031 tax-deferred strategy.

The sale of a business or investment asset, whether it is real estate or capital equipment, can create a large tax liability. A properly structured tax deferred exchange under Internal Revenue Code ¤1031, however, allows businesses and individuals to defer the recognition of the capital gains or other taxes associated with the sale of most business or investment assets, as long as new assets are purchased to replace the existing assets. In general, most tax-deferred exchanges are structured either as a real property or a personal property exchange. Real property exchanges include only interests in real property, while personal property exchanges encompass virtually all other types of property.

To be eligible for the favorable tax treatment afforded by an exchange, the property or business asset to be disposed of must have been held by the client for productive use in a trade or business, or for investment purposes, and be exchanged for like-kind replacement property that will be held by the client for similar purposes. With few restrictions, whether an exchange involves a parcel of real property, an airplane, a broadcast spectrum, or a fleet of cars, exchanges allow businesses and individuals the flexibility to sell property to whomever they wish, and to buy new property from whomever they wish. There is no requirement that property be "swapped" to be eligible for an exchange nor do exchange transactions require any significant changes to the terms of the sale and purchase agreements. By utilizing an exchange clients are able to maximize their capital by deferring the taxes that would otherwise be incurred on an outright sale of their property and use the entire amount of the equity from the exchange to acquire substantially more replacement property. Properly structured and administered, an exchange becomes an invaluable tax saving tool and an integral element of the business cycle.

Source: Tenants-in-Common Association (TICA)