

1031 Exchange FOCUS

SECTION 1031 OF THE INTERNAL REVENUE CODE IS ONE OF THE GREATEST WEALTH BUILDING TOOLS AVAILABLE TO THE INVESTOR



→ THE EXCHANGE PROCESS STEP BY STEP

Internal Revenue Code Section 1031 allows investors to defer the payment of capital gains taxes when selling investment property and exchanging into other like-kind investment property.

Investors unfamiliar with 1031 Exchanges may envision the process as being intimidating and difficult. In reality, it doesn't have to be. In order to successfully complete an exchange, investors must simply follow the following basic steps:

• Set up an Exchange Account

The 1031 Exchange account MUST be opened before close of escrow on the property being sold. Waiting until the last minute is not recommended, but Asset Exchange Company (AEC) can open a 'rush' account if necessary.

• Insert the Appropriate Language into the Sales Contract

The appropriate 1031 language should be added to the Purchase & Sale contract for the property being sold. AEC can provide you with such language if necessary.

• Execute the Exchange Agreement

At the close of escrow, AEC will coordinate with the escrow company to obtain all of the necessary signatures on all exchange documentation.

• Locate Replacement Property

The most difficult process of the exchange can often be finding the right replacement property within the required timeframe. The IRS requires that potential replacement property is identified on or before day 45 of the exchange and property must be acquired on or before day 180 of the exchange.

• Submit 45 Day Identification Letter

The Identification Letter MUST be submitted no later than day 45 of the exchange. All potential replacement properties must be identified in writing in an unambiguous manner.

• Request Funds for Deposits

Money for deposits can be disbursed from the exchange account. Clients are required to send AEC the "Disbursement Form" indicating how much money needs to be distributed and to whom. Deposits can also come from the clients personal funds and then reimbursed to the client at the closing of the property.

• Submit "Replacement Property Form"

Once a replacement property has been decided upon and there is likelihood of closing, the exchanger will need to submit the "Replacement Property Form" to AEC indicating who they are working with to buy the property.

• Obtain Appropriate Signatures

At the close of escrow of the replacement property, AEC will work with the new escrow company to obtain all appropriate signatures for all exchange documentation.

Depending on the nature of the transaction, additional steps may need to take place. Asset Exchange Company will work closely with the client to ensure a successful transaction.

The subject matter in this newsletter is intended as general information only and not intended as tax or legal advice. Please always consult your tax or legal advisor for any specific tax or legal matters.

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