

# How to Get an Exchange Started

A 1031 Exchange, also known as a like-kind exchange, is a valuable tax-deferral strategy that real estate investors use to defer capital gains tax when selling one property and acquiring another. It's a complex process, but when done correctly, it can save investors substantial amounts of money. If you're considering a 1031 Exchange, this step-by-step guide will help you get started on the right foot.

## **Consult with a Qualified Intermediary:**

The first and most crucial step in initiating a 1031 Exchange is to engage the services of a Qualified Intermediary (QI). A QI is an independent third party responsible for facilitating the exchange, ensuring compliance with IRS regulations, and holding the proceeds from the sale of your relinquished property until the replacement property is acquired. Choose an experienced QI to guide you through the process.

## **Understand Eligibility:**

To qualify for a 1031 Exchange, you must meet certain eligibility criteria. Both your relinquished and replacement properties must be held for business or investment purposes, and they must be like-kind. Ensure that your properties meet these requirements.

## **Identify Replacement Properties:**

Within 45 days of selling your relinquished property, you'll need to identify potential replacement properties in writing to your QI. It's crucial to adhere to this strict deadline. You can identify up to three properties or use the 200% rule, which allows you to identify more properties if their combined fair market value doesn't exceed 200% of the relinquished property's sale price.

## **Acquire the Replacement Property:**

Once you've identified your potential replacement properties, you have 180 days from the sale of your relinquished property to close the deal on one or more of them. Working closely with your real estate agent and financial advisor, ensure you secure the replacement property within this timeframe.

## **Transfer Funds to the QI:**

To maintain the tax-deferred status of your exchange, all sale proceeds from your relinquished property must be transferred directly to the QI. They will then hold these funds in a secure, segregated account.

## **Complete the Exchange:**

Your QI will work with you, the closing agents, and the involved parties to facilitate the exchange. Once the closing on the replacement property is complete, the QI will transfer the funds to acquire it. Make sure that all documents are correctly structured to comply with IRS regulations.

## **Report the Exchange:**

Finally, when filing your tax return for the year in which the exchange occurs, you'll need to report it to the IRS. Consult with your tax advisor to ensure the proper forms are filed to maintain the tax-deferred status of your 1031 Exchange.

## **Conclusion:**

Getting a 1031 Exchange started requires careful planning, compliance with IRS regulations, and the guidance of a Qualified Intermediary. By following these steps and working with experienced professionals, you can navigate the process and potentially defer significant capital gains tax, making it a valuable tool for real estate investors.



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