

# What is a 1031 Exchange?

A 1031 Exchange, also known as a like-kind exchange, is a provision in the United States tax code that allows individuals and businesses to defer capital gains tax when they sell certain types of investment properties and reinvest the proceeds into similar "like-kind" properties. The name "1031" refers to the section of the Internal Revenue Code that outlines the rules for such exchanges. This tax strategy is often used by real estate investors to leverage the gains from the sale of one property into the acquisition of another without triggering an immediate tax liability, thereby preserving their capital for investment in new assets.



To qualify for a 1031 Exchange, the properties involved must be of like kind, which means they share a similar nature or character. There are strict rules and timelines that must be followed in a 1031 Exchange, such as identifying potential replacement properties within 45 days of selling the initial property and completing the acquisition of the replacement property within 180 days. While a 1031 Exchange provides a powerful tax-deferral mechanism, it does not eliminate capital gains tax liability entirely; it merely postpones it until the investor eventually sells the replacement property without engaging in another 1031 Exchange.

## 1031 Exchange Eligibility Guidelines



Eligibility for a 1031 Exchange is determined by specific criteria set forth by the Internal Revenue Service (IRS). To qualify, the properties involved must be held for productive use in a trade or business or for investment purposes. This means that personal residences and properties primarily acquired for resale are generally not eligible for a 1031 Exchange. The properties must also be of like kind, which means they should have a similar nature or character, though this requirement is interpreted rather broadly, allowing for exchanges between different types of real estate, such as swapping an apartment building for a retail shopping center.

Furthermore, there are specific timing and procedural requirements to be met. The taxpayer must identify potential replacement properties within 45 days of selling the relinquished property and complete the acquisition of the replacement property within 180 days. Additionally, the use of a qualified intermediary is often necessary to ensure that the transaction meets all the necessary requirements. Failure to meet any of these criteria can result in disqualification from the 1031 Exchange, leading to the immediate recognition of capital gains tax on the sale of the original property. It's essential to work with tax and real estate professionals who are well-versed in 1031 Exchange rules to navigate the process successfully and take advantage of this tax-deferral strategy.



**Culver City, Ca**



**Atlanta, Ga**



**Nationwide**



**aa1031.com**



**info@aa1031.com**



**(470) 387-1031**



**AMERICAN  
ACCOMMODATORS**