

# ONE OF THE BEST KEPT SECRETS!

## WHAT IS A 1031 IRS TAX DEFERRED EXCHANGE?

A 1031 tax deferred exchange is simply a method by which a property owner trades (sells) one property and purchases one or more properties without having to pay any federal income taxes on the transaction. In an ordinary sale transaction, the property owner is taxed on any gain realized by the sale of the property. But with an exchange, the tax on the sale transaction is deferred until some time in the future, usually when the newly acquired property is sold. These exchanges are sometimes called "tax free exchanges," because the exchange transaction itself is not taxed.

## 1031 BENEFITS:

**Deferral of Taxes:** Taxpayers can build wealth through a reinvestment of profits and appreciation in market value, while at the same time avoiding having the current payment of taxes erode their wealth.

EXAMPLE	SELL & PAY TAX	SELL & PURCHASE
Proceeds of sale	\$1,000,000	\$1,000,000
Tax Owed	\$200,000	\$0
Cash to reinvest	\$800,000	\$1,000,000
New Investment with 20% Down	\$4,000,000	\$5,000,000
10% income on investment	<b>\$400,000 per yr.</b>	<b>\$500,000 per yr.</b>
Compare	→ → → → →	<b>\$100,000 p yr 25% more Income</b>

## THERE ARE A NUMBER OF ADDITIONAL GOOD REASONS FOR YOU

- Greater leverage (instead of paying the tax on the gain of the sale, you can reinvest the tax money)
- Increase cash flow
- Own income property instead of raw land
- Property consolidation
- Property diversification
- Geographic relocation of owner or property
- Reduce management required
- Freedom of joint ownership
- Relocation of a business
- Estate planning – dividing/consolidation properties – ease estate problems for future
- Improve from low appreciation to high growth

## QUALIFIED PROPERTIES:

To meet the requirements of 1031, both Relinquished Property and Replacement Property must qualify. In other words, both the property you are selling and the property you are buying must be qualified property of like-kind.

## LIKE-KIND PROPERTY:

- Like-kind refers to your use of the property and not to its greater quality
- "1031" property may be mixed as to type and still be like-kind, for instance, you may exchange land for a duplex, or a commercial building for a retail store, etc.

## QUALIFIED INTERMEDIARY:

A qualified intermediary is a person (or company) who, for a fee, acts to facilitate the deferred exchange by entering into an agreement with you for the exchange of properties.

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