

## How to Benefit From a 1031 Exchange

A 1031 Exchange could allow you to defer the capital gains tax on the sale of investment property if you roll over all the sales proceeds into a new investment property. Here's how it works:



- The buyer of the investment property that you're selling gives his/her funds to a "qualified intermediary" who keeps the funds in escrow on your behalf
- Within 45 days of the sale of your old property, you identify a replacement property that you'd like to purchase
- Within 180 days of the sale of your old property, you close on the purchase of the new property. At that time, the qualified intermediary uses the funds that you have in escrow to purchase the new property on your behalf.

For example, assume that Jerry has a \$200,000 long term capital gain on his property. If he sells the property outright, he'd probably have to pay \$30,000 in capital gains tax (15%), plus an additional \$7,600 as a 3.8% net investment income tax. On the other hand, Jerry may be able to save \$37,600 in taxes if he simply uses a 1031 exchange and rolls over all his sales proceeds into another investment property. Keep in mind that there's no limit on the number of times Jerry can use a 1031 exchange. He could use this strategy to continuously roll over his profits from the sale of real estate without ever having to pay capital gains tax. Then, when his heirs inherit his property, they'd receive what's known as a step-up in basis. This means that if they sell the property at that time, they won't have to pay capital gains tax either!

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