

Save Taxes In 1031 Like-Kind Property Exchanges

If you aren't aware of how exchanging works, you're missing one of the biggest opportunities in real estate today! Exchanging is the tax code's most powerful reward for owners of investment real estate. Let's cover the basics.

In general, an exchange is accomplished by selling your property and buying another. The process is much simpler than most people think. It's really just a sale and a buy, with a few curveballs tossed in for good measure.

It might be the word "exchange" that confuses people. Instead of "exchanging", the process should really be called "continuing". If you merely continue your investment, the IRS says, "Okay, since you're continuing your investment you don't have to pay tax on your gain at this time". Your gain is carried forward to the replacement property. If you someday sell the replacement property, the gain would be taxed then. But, instead of selling what could you do? Exchange! If you kept doing this your entire life, all the gains would be forgiven when you die because of the "stepped up basis rules".

As long as the only thing you receive in the exchange is "like-kind real property" you're merely "continuing" your investment and your gain is not taxed. "Like-kind real property" is any real property held for investment or use in a trade or business.

If you receive any "unlike-kind property", part or all of your gain may be taxed. The three types of "unlike property" are:

1. Cash
2. Boot (defined as "any non-cash asset, e.g. a boat, a car).
3. Net loan relief (when you own less after the exchange than you did before the exchange).

No Tax On Your Gain

Once the dust has settled, you have sold your old property and purchased another. But, if you do it right, you're treated as if you did an exchange. And, if the only thing you received is like-kind property, you're merely "continuing" your investment, and you don't have to pay tax on your gain. **WHAT A DEAL!**

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