# Steps to a Successful 1031 Exchange

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A Section 1031 exchange allows investors to defer capital gains tax on the sale of investment property by reinvesting the proceeds into another like-kind property. This strategy can preserve capital, enhance cash flow, and grow wealth—but only if executed properly.

This white paper provides a step-by-step guide to completing a successful 1031 exchange and avoiding common pitfalls.

## **Step 1: Determine Eligibility**

- Both the relinquished and replacement properties must be held for investment or business use.
- Like-kind property requirement applies to real estate only.
- Personal residences and properties held primarily for resale do not qualify.

### Step 2: Engage a Qualified Intermediary (QI)

- A QI must be engaged before the sale closes.
- The seller cannot take possession of the proceeds.
- Choose a reputable, experienced QI to handle funds and documentation.

### **Step 3: Sell the Relinquished Property**

- Include 1031 exchange language in the purchase agreement.
- Proceeds must be transferred directly to the QI.
- Retain all closing documentation.

### **Step 4: Identify Replacement Property (Within 45 Days)**

- Identification must be in writing and submitted to the QI within 45 days of the sale closing.
- Must follow one of the three IRS identification rules: Three Property Rule, 200% Rule, or 95% Rule.

### **Step 5: Acquire Replacement Property (Within 180 Days)**

- Replacement property must be acquired within 180 calendar days from the sale closing.
- To fully defer tax, purchase property of equal or greater value and reinvest all equity.

## **Step 6: Follow Title and Ownership Rules**

- The name on title for the new property must match the name on the relinquished property.
- Entity consistency (e.g., LLC, individual) is critical.

## **Step 7: Report the Exchange**

- File IRS Form 8824 with your tax return.
- Report deferred gains and adjusted basis.
- Maintain thorough documentation for compliance.

## **Advanced Planning Strategies**

- Consider Delaware Statutory Trusts (DSTs) for passive ownership and diversification.
- Use cost segregation studies to accelerate depreciation.
- Integrate with estate planning to achieve basis step-up at death.

## **Common Pitfalls to Avoid**

- Missing the 45-day or 180-day deadline.
- Receiving cash or debt boot (may trigger partial tax).
- Failing to engage a QI before closing.
- Purchasing personal-use or non-qualifying property.

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