SELLING INVESTMENT OR BUSINESS REAL ESTATE REQUIRES YOU TO PAY TAXES ON THE PROFIT FROM THE SALE. HOWEVER, IF YOU WISH TO REINVEST, IT IS POSSIBLE TO AVOID PAYING THE TAX AND USE THE ENTIRE AMOUNT OF EQUITY FROM THE EXCHANGE TO ACQUIRE SUBSTANTIALLY MORE REPLACEMENT PROPERTY.

But how does it work?

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NATIONAL REALTY EXCHANGE SERVICES

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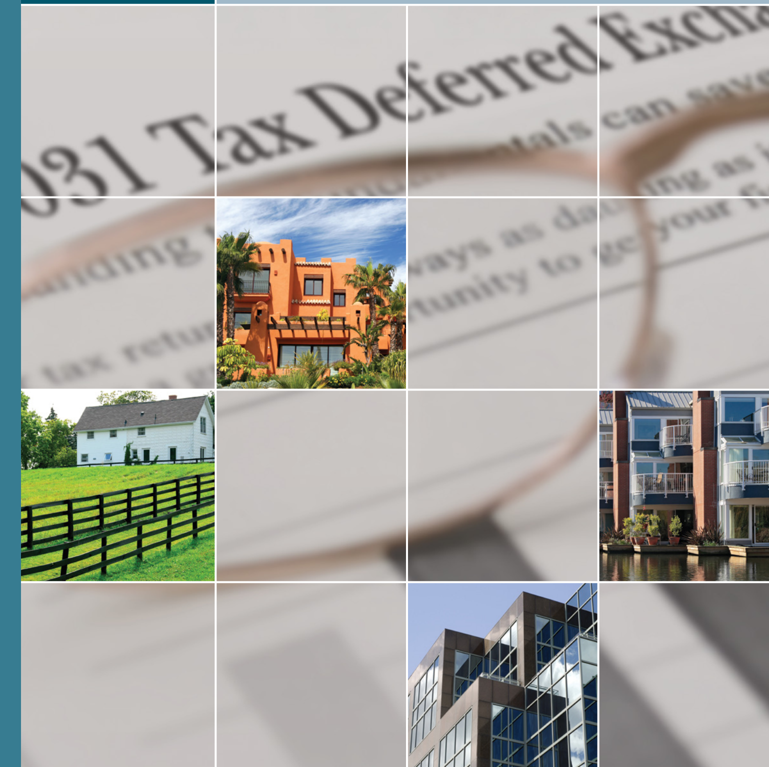
1031
LIKE-KIND EXCHANGES



Preserve Profit and Build Wealth through Tax Deferred Exchange

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Utilizing a process known as "tax deferred exchange"

Also known as a 1031 Tax Exchange, this process enables a property seller to shift their funds from the sold property to a new purchase without obligation to pay capital gains taxes. This is extremely beneficial when a property owner wishes to build net worth and either consolidate or diversify their real estate holdings. By deferring the payment of these taxes, the property owner not only realizes an improved cash flow, but can also solve management problems and increase leverage, thereby increasing the opportunity for greater additional appreciation.

How does it work?

Essentially, according to the Internal Revenue Service's Code 1.1031(k), a person owning real estate for investment or business purposes through the use of a Qualified Intermediary can sell their property and then purchase "like-kind" property in order to defer paying their capital gains tax. The replacement property the exchangor desires to purchase must be identified in 45 days, and be settled within 180 days of the date of settlement of the relinquished property.

How can NRX help you implement this process?

The assistance of a "Qualified Intermediary" is key in completing a tax-deferred exchange. As a Qualified Intermediary, we have a working knowledge of the exchange procedures as well as contract stipulations and can help make the process much easier. The code forbids parties such as the seller's agent, broker, attorney, accountant, family members and business partners from acting in this capacity.

As a Qualified Intermediary, what does NRX do?

As the process is a complicated one, the Qualified Intermediary has numerous responsibilities. Initially, we draft the exchange agreement and assignment documents, accept the assignments of all contracts associated with the exchange and notify all parties of these assignments. Then we provide instructions to the settlement agent and create a qualified escrow account for the proceeds from your sale, eventually funding the settlement of the replacement property from that account. We also receive the required 45-day identification notice for the replacement property and handle direct deeding issues. Finally, producing a comprehensive accounting of the funds placed in escrow and copies of all exchange and closing documents for our client's accountant.

When conducting a tax-deferred exchange, what are the requirements for reinvesting in a replacement property?

The replacement property must be of equal or greater value than the relinquished property and all cash equity from the sale must be reinvested. If not, any remaining funds are subject to capital gains tax.

Qualified like-kind property

OFFICE BUILDINGS	RAW LAND/LOTS
CONDOS	RENTAL HOMES
VACATION RENTALS	APARTMENTS

What are the distinctions for "like-kind" property?

"Like-kind" doesn't refer to the grade or quality of a property but rather the property's nature or character. For example, if you own a single-family rental property and wish to purchase a farm as a replacement, that falls under the definition of "like-kind." Exchanging a lot or condominium for an office building also meets those guidelines. The IRS has broadly defined that any kind of real estate may be exchanged for any other kind of real estate.

A more narrow distinction holds for personal property such as business vehicles or assets. If you're selling a work truck to purchase equipment for your new coffee shop, you will not meet the 1031 guidelines. But if you're selling an airplane to purchase another airplane, you meet the requirements laid out by the tax code.

What properties don't meet 1031 requirements?

Your personal residence doesn't fall under the guidelines for a 1031 exchange. Nor do spec houses or properties designated for a quick turnaround (i.e. purchasing a home and completing quick improvements for immediate sale). Partnership interests and stocks and bonds do not meet the criteria either.

Despite stringent guidelines and restrictions on tax-deferred exchanges, investment and business property owners can benefit greatly from utilizing this type of transaction. So if you're planning on selling an investment or business property, investigate the options available to you to save thousands of dollars in taxes! Let National Realty Exchange Services help you navigate this complicated territory. We'll take care of all the details, just give us a call.

What is the sequence of events in a tax deferred 1031 exchange?

01 The property to be relinquished goes under contract.

02 The property owner secures a Qualified Intermediary and enters into an exchange agreement.

03 The Qualified Intermediary is assigned the sales contract.

04 The property sale is completed and the Qualified Intermediary places the proceeds in a short-term account.

05 The property owner conveys the title of the relinquished property to the buyer.

06 Within 45 days, the property owner identifies up to three replacement properties and informs the Qualified Intermediary of their choice. *In addition to the 45-day contingency, the property must be located in the United States and be settled within 180 days.*

07 The property owner enters into a contract to purchase the replacement property.

08 The sales contract for the new property is then assigned to the Qualified Intermediary.

09 Closing on the replacement property occurs within 180 days.

10 Title is conveyed to the property owner from the seller of the replacement property.

11 The Qualified Intermediary transfers the proceeds from the short-term account to the replacement property seller, with the property owner receiving any remaining funds, provided there are any, from the account.

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