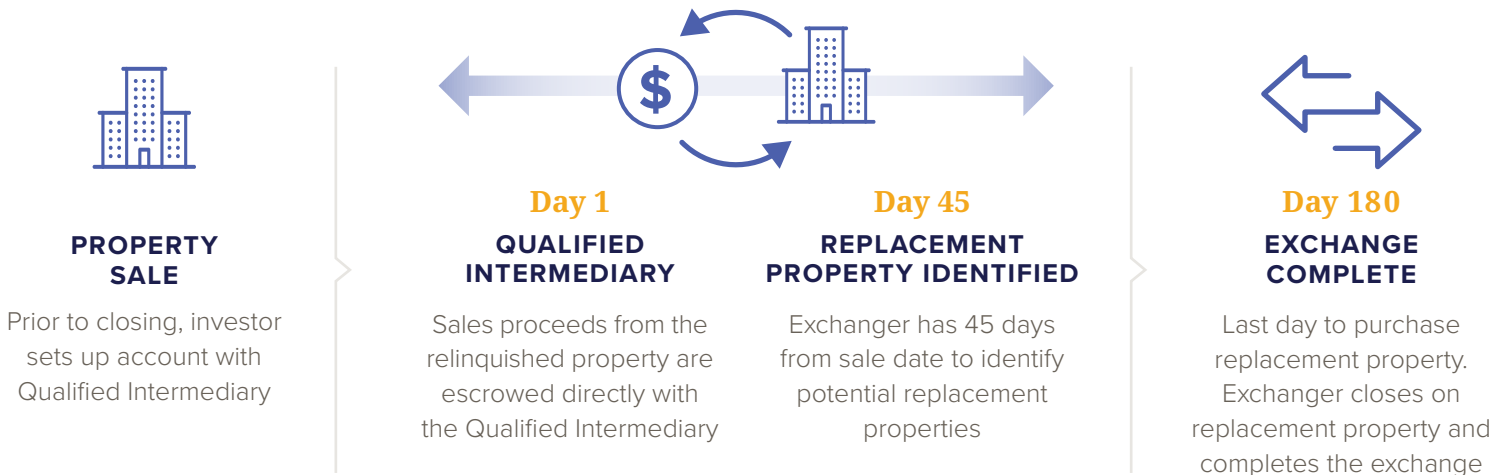


# 1031 Exchange FAQ



## What is a 1031 Exchange?

A **1031 Exchange** allows you to **defer capital gains taxes** when swapping investment or business properties for “like-kind” properties. However, if you receive cash, debt relief, or non-like-kind property, you may owe some taxes.



## Who Qualifies for a 1031 Exchange?

### ELIGIBLE PARTICIPANTS INCLUDE:

- Individuals
- Corporations (C & S)
- Partnerships (general & limited)
- LLCs
- Trusts
- Other tax-paying entities

## What Are the Different Types of 1031 Exchanges?

### SIMULTANEOUS EXCHANGE

Direct swap of one property for another.

### DEFERRED EXCHANGE

Sell first, buy later, but must follow IRS rules.

### REVERSE EXCHANGE

Buy new property before selling the old one.



## What Properties Qualify for a 1031 Exchange?

- **Like-kind** refers to real estate held for **investment or business purposes**, not personal use.
- Properties do **not** have to be identical but must be **of the same nature or character**.
- **Any type of real estate can be exchanged for another type**, as long as both are investment properties.

### EXAMPLES OF LIKE-KIND EXCHANGES:

#### Allowed:

- Apartment building » Retail center
- Office building » Industrial warehouse
- Raw land » Multifamily property
- Single-family rental » Delaware Statutory Trust (DST) interest

#### Not Allowed:

- Personal residence » Investment property
- U.S. real estate » Foreign real estate
- Property held for resale (flips) » Investment property
- Stocks, bonds, inventory, and partnership interests



## What Are the Time Limits?

**45 Days** Identify potential replacement properties.

**180 Days** Complete the exchange by acquiring the replacement property.



## How Do You Report a 1031 Exchange to the IRS?

- File **Form 8824** with your tax return.
- Report details such as property descriptions, dates, values, and any cash or liabilities involved.



### CONCLUSION:

A 1031 Exchange is a compelling strategy for investors looking to continue owning real estate while deferring taxes.

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- If a DST property is transferred (or the DST is converted) to a springing limited liability company ("LLC"), investors will likely lose their ability to participate in a future Section 1031 exchange with respect to the transferred property.
- Investors will have no voting rights and will have no control over management of the DST or its property.
- DST programs depend on tenants for their revenue and may suffer adverse consequences as a result of any financial difficulties, bankruptcy or insolvency of their tenants.
- Continued disruptions in the financial markets and challenging economic conditions could adversely affect the ability of any DST program to secure debt financing on attractive terms and its ability to service that indebtedness.
- DST programs often do not have arm's length agreements with their management entities.
- DST programs often pay significant commissions and fees to affiliates, which may affect the amount of income investors earn on their investment.
- Persons performing services for the managers of DST programs often perform services for other programs and will face competing demands for their time and service.
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- Changes in tax laws may occur and may adversely affect an investor's ability to defer capital gains tax and may result in immediate penalties.
- The structures of DST programs are inflexible and, in certain events, may be converted to a LLC structure, which would have a tax impact on investors.
- DST programs do not provide any prospective investor with separate legal, accounting or business advice or representation.



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