



1031x.com

Newsletter

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*Thought you'd find this helpful:*

## General Questions

The expression 1031 exchange refers to an Internal Revenue Code section numbered 1031. In summary, this law says that if investment property is exchanged for like-kind investment property then capital gains tax will not have to be paid in the year of the exchange.

Like-kind has been broadly defined by the IRS to include ANY kind of real estate for ANY other kind of real estate. For instance an apartment building can be traded for a farm or, a mobile home park can be traded for a warehouse. In this regard real estate is a very special investment tool because very few other investments can be exchanged with this flexibility.

From a broker's stand point, this allows the broker to meet the client's needs to change the shape of their real estate investment. The client may want an investment that is easier to manage. Or, the client may want an investment that provides better cash flow. Or, the client may want a property yet to be developed. Use of a 1031 exchange allows the broker to meet the changing investment needs of the client while at the same time the client has no present tax liability from the exchange. It's a great tool for both the client and the broker.

Now here is a good rule of thumb for you and your clients to follow:

***If no tax liability is to be incurred the client must trade equal or greater both equity and fair market value.***

This means that all cash received from the relinquished property must be used as down payment on the replacement property.

**And**, the replacement property must be equal or larger in fair market value to the relinquished property.

For answers to all your 1031x questions, call us at 303-504-0144!

Please call [www.1031x.com](http://www.1031x.com) at 888-899-1031 or email [infox@1031x.net](mailto:infox@1031x.net) for a free consultation!