



Newsletter

**Toll Free 888-899-1031
Fax 303-715-1012**

infox@1031x.net

Thought you'd find this helpful:

NEW LAW IMPACTS 1031X WITH CHANGE IN USE

Tax treatment of real estate depends upon how it is used. Capital gain tax on investment property can be deferred under IRC section 1031. Capital gain tax on principal residence can be excluded under IRC section 121. (See "1031x in a Nutshell" Newsletter at 1031x.com) Investors know that you can use 1031x to defer capital gains and later convert the use of the replacement property to principal residence, sell it, and thereby convert deferral of capital gains tax to avoidance of capital gain tax.

A new law, effective on October 22, 2004, limits the speed at which you can do this. Now any 1031x replacement property, which is later converted to use as a principal residence, must be held for five years from the date of acquisition before it can qualify for IRC section 121 exemption from tax. Prior to this law a taxpayer could own the replacement property for as little as two years and qualify.

The other requirements of sections 1031 and 121 still apply.

CONCLUSION: By enacting this law the IRS acknowledges the existence of this tax strategy and implicitly "road maps" its use.

For more information about comparing the requirements of IRC section 1031 and IRC section 121 go to the [1031 Exchange in a Nutshell](#) newsletter.

Please call www.1031x.com at 888-899-1031 or email info@1031x.net for a free consultation!