

§ 1031 EXCHANGES

THE POWER TO ACHIEVE YOUR INVESTMENT GOALS.

The use of a 1031 Exchange allows you to protect, grow and diversify your wealth without losing your equity to taxation. In a typical property sale, an owner usually has to pay taxes on any gain. The 1031 Exchange, as it is commonly known, derives its name from the section of the Internal Revenue Code which explains the use of a tax deferred exchange. Savvy investors have known for years that a properly structured 1031 Exchange allows an investor to sell a property, to reinvest the proceeds in a new property and to defer all capital gain taxes.

THE POWER OF FLEXIBILITY AND GROWTH

Capital gain deferment by use of a 1031 Exchange requires the exchange of "like-kind" relinquished property for other "like-kind" replacement property. Investors often mistakenly believe that this requires them to acquire property exactly like the property they sell. They are surprised to learn a wide variety of properties can be considered "like-kind".

"Like-kind" does not refer to the type of property. Instead, it addresses the intended use of the property. Provided the property is initially acquired and held either for business or investment purposes, it can qualify as a suitable replacement property. For example, any of the following could be considered "like-kind" property exchanges: a duplex for a fourplex, bare land for improved property, a rental house for a retail center or an apartment building for an office building. In other words, an investor does not have to exchange for exactly the same type of property as sold.



STARTING AN EXCHANGE - A SIMPLE PROCEDURE

There is little difference between the familiar sale transaction and an exchange performed by Dickson Escrow Services, LLC.

STEP ONE - Call Dickson Title, LLC or Dickson Escrow Services, LLC for a free consultation prior to contracting or closing on the property you intend to sale. Dickson Escrow Services, LLC will work closely with all parties, including the real estate agents, attorney and accountant to review the proposed exchange.

You will need to include language in your Purchase and Sale Agreement that indicates you intend to perform a § 1031 Exchange. The following is an example of language to be used:

COOPERATION CLAUSE

Buyer hereby acknowledges that it is the intent of the Seller to effect and IRC § 1031 tax deferred exchange which will not delay the closing or cause additional expense to the Buyer. The Seller's rights and obligations under this agreement may be assigned to a Qualified Intermediary, for the purpose of completing such an exchange. Buyer agrees to cooperate with the Seller and Qualified Intermediary to be named, in a manner necessary to complete the exchange.

STEP TWO - Dickson Escrow Services, LLC will gather the information necessary to prepare the exchange documents to be signed at closing.

STEP THREE - Upon closing on the property, you have forty-five (45) days from the closing to identify potential replacement properties. Dickson Escrow Services, LLC will provide you with specific identification requirements.

STEP FOUR - You have a total of One Hundred Eighty (180) days from the initial closing, or your tax filing date, whichever is earlier, to purchase suitable replacement property.

THE EXCHANGE EQUATION - 100% TAX DEFERRAL

In order to fully defer all capital gain taxes, you must meet two requirements:

1. Reinvest all exchange or net proceeds; and
2. Acquire property with the same or greater debt.



WANT TO KNOW MORE?

For additional information and forms visit our website at www.DicksonTitle.com or contact us at the locations listed. In addition, you may also submit orders and review frequently asked questions about 1031 Exchanges on our website. Further, our website contains a capital gains calculator, closing cost calculator, exchange deadline calculator and forms.

Internal Revenue Code § 1031(a)(1) states:
No gain or loss shall be recognized on the exchange of property held for productive use in a trade or business or for investment, if such property is exchanged solely for property of like-kind which is to be held for productive use in a trade or business or for investment.

1031 EXCHANGE DO'S AND DON'T'S

- **DO** Advance Planning by speaking with your accountant and deciding if a 1031 Exchange is going to be beneficial for you.
- **DO** assign interest as Seller to Qualified Intermediary. This will be done at time of closing when the Exchange Agreement is executed.
- **DO** keep in mind basic rules to qualify for tax deferral.
- **DO** use all proceeds from relinquished property for purchasing replacement property.
- **DO** acquire title to replacement property as the same entity the relinquished property was held.
- **DO** identify property of like kind as replacement property.
- **DO NOT** miss identification or exchange deadlines. If these dates are missed, 1031 will be disqualified.
- **DO NOT** expect to use funds for any other purpose except for the exchanging of property. This will cause money not used for purchase of new property to be taxed.
- **DO NOT** plan on immediately selling replacement property after purchased with 1031 Exchange money. This could be an indication that replacement property was purchased for resale and could disqualify the Exchange.

Dickson Title, LLC
507 East College Street | Dickson, TN 37055
615-446-9996 phone | 615-441-1565 fax
www.dicksontitle.com

1031 EXCHANGES



DON'T LOSE YOUR
EQUITY TO TAXATION


Dickson Title, LLC
25 YEARS OF SERVICE

R. ERIC THORNTON Esq.