



Should I do a 1031 Exchange?

WHAT IS A 1031 EXCHANGE?

A 1031 exchange allows an investor or business to sell old investment or business-use property, purchase new replacement property, and defer all of the capital gain and recapture taxes that would ordinarily have been due on the sale. This means that **all** of your equity is preserved; the value of your original investment is not eroded by taxes. If the property you are selling is a rental or an investment property and you plan to hold the new property for investment, rental or commercial use, you may qualify to defer taxes under §1031 of the Internal Revenue Code. IPX1031® can help you understand and use this valuable tax tool.

HOW TO INITIATE AN EXCHANGE

STEP #1. Find an experienced professional QUALIFIED INTERMEDIARY to assist you with the exchange as early in the sale process as possible. Key points to consider in selecting a Qualified Intermediary are: a **knowledgeable and experienced staff**; their **ability to provide assistance** to your real estate agent, CPA and/or attorney; and of **especially critical importance, the safety of your funds** being held by the Qualified Intermediary. At a minimum, you should require a Qualified Intermediary to provide fidelity bond insurance coverage. Investment Property Exchange Services, Inc. (IPX1031®) provides the highest level of security on your exchange funds with a \$100 million fidelity bond, a \$50 million third-party performance guarantee, and \$30 million in errors and omissions insurance coverage.

STEP #2. Instruct your real estate agent to include an “Exchange Cooperation Clause” as an addendum to the purchase and sale agreement on the relinquished property (the property you are selling to the buyer). An example of an Exchange Cooperation Clause is:

“Buyer hereby acknowledges that it is the intent of the Seller to effect an 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 Investment Property Exchange Services, Inc., a Qualified Intermediary, for the purpose of completing such an exchange. Buyer agrees to cooperate with the Seller and Investment Property Exchange Services, Inc. in a manner necessary to complete the exchange.”

NOTE: Change Buyer to Seller and Seller to Buyer for the cooperation clause on the Replacement Property contract.

STEP #3. Contact your Qualified Intermediary as soon as possible after escrow is opened or **after entering into the purchase and sale agreement** and advise them of your intent to do an exchange well in advance of the closing date. The Qualified Intermediary will draft the appropriate Exchange Agreement, Assignment, and Exchange closing instructions so they can be signed prior to closing on the property being sold.

STEP #4. Start searching for acceptable replacement property immediately to insure that you can meet the strict time frame for the 45-day Identification Period.