

EQUITY resourceful 1031 navigation ADVANTAGE

1031 EXCHANGE



~ Real Estate ~ Aircraft ~ Equipment ~ Art Work ~

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THE 1031 EXCHANGE

A 1031 Exchange is an IRS–authorized process where like–kind business or investment property is exchanged without immediate tax liability to the property owner (Exchangor).

While the 1031 Exchange is most commonly used for real estate transactions, other depreciable assets (such as office equipment, cars, artwork, cattle and aircrafts) and non–depreciable assets (some patents, software, and trademarks) may qualify for exchange as well.

The IRS requires a neutral third party, known as a facilitator, qualified intermediary (QI) or accommodator to be used for facilitating the 1031 Exchange. Equity Advantage is a qualified intermediary in facilitating 1031 Exchanges.

THE EXCHANGE PERIOD



Day 1: Closing of Relinquished Property

The first property closes and the exchange period begins. All relinquished and replacement properties must be closed within this 180 day period.

Day 45: Identification Date

The Exchangor must nominate (identify) potential replacement properties they wish to acquire no later than this date. The identification form should be filled out and sent to Equity Advantage.

Day 180: Last day of the Exchange

The last day to close on any remaining properties. The exchange is now complete.

WHAT QUALIFIES?

Property held for productive use in a trade, business or for investment may be exchanged for like–kind property. This includes real property (real estate) and personal property.

Real Property

For real property, like–kind property is widely defined as real property located in the United States and some of its territories. The term “real property” is very broad. A single–family rental can be exchanged for a duplex, raw land for a shopping center, or an office building for apartments. Any combination will work as long as it is real estate.

A personal residence, while considered real estate, does not qualify for a 1031 Exchange.



Personal Property

Personal property is evaluated based upon its nature and character, its General Asset Class, and NAICS classification. Personal property has more restrictions when exchanging. To determine the restrictions, please contact Equity Advantage directly.

Personal property includes but is not limited to aircrafts, equipment, cattle, computer software, and train cars.



COMPARING A SALE AND AN EXCHANGE

This illustration compares two investors and the results of a sale and an exchange. Each investor purchased their property for \$400,000, depreciated the property by \$100,000 (adjusted basis is \$300,000) and sold it for \$750,000. The remaining loan balance is \$250,000. The combined tax exposure for federal, state, and depreciation recapture is 40%.

CAPITAL GAIN:	$\$750,000 - \$300,000 = \$450,000$		
IMPACT OF TAX:	$\$450,000 - 40\% = \$180,000$		
	SALE / PURCHASE	VS	EXCHANGE
SALE PROCEEDS:	\$500,000		\$500,000
TAX PAYABLE	(\$180,000)		NONE
CASH AVAILABLE FOR INVESTMENT:	\$320,000		\$500,000

Capital gains tax rates of the 1997 Taxpayers Relief Act are dependent upon time and category of investment.

If each Investor uses his cash to purchase a property with 25% down payment, the Seller would be able to buy properties valued at \$1,280,000. The Exchangor would be able to buy properties valued at \$2,000,000.

GUIDELINES GOVERNING THE EXCHANGE

1. There must be an exchange of property. Something must be given away and something must be received. (this does not need to occur simultaneously)
2. The Exchanged properties must be like-kind to one another. If selling real estate, the Exchangor must purchase real estate. If selling personal property, the Exchangor must purchase personal property of the same class.
3. The exchange must satisfy the "Napkin Test." This means, the Exchangor needs to go across or up in value and equity when finding a replacement property. If they reduce their value, they will owe taxes on the difference.
4. There must be continuity of vesting throughout the exchange. The same entity that gives up the relinquished property must receive the replacement property. (If John Smith sells property A, he must be the one that buys property B)

WHY EXCHANGE?

Cash Flow: Exchange out of a property with little or negative cash flow into a new property with positive cash flow.

Better Investment: Exchange out of a property with little potential into property with better upside.

Less Management: Exchange rentals for raw land or for property that can be professionally managed.

Better Location: Exchange into an area that has strong, diversified economy that will grow faster than the area of the current property.



TYPES OF EXCHANGES

Delayed Exchange

With a Delayed Exchange, the Exchangor relinquishes (sells) their property first, and replaces (purchases) property second.

Reverse Exchange

The Reverse Exchange allows an Investor to acquire new property today, when an excellent investment may be available while selling the relinquished property in the future.

Improvement Exchange

The Improvement Exchange allows an Investor to construct the “perfect” replacement property. Improvements can be as basic as repairs to existing structures or as complex as ground-up new construction.

It may even be possible to make improvements to property already owned.

ABOUT US

When selecting an exchange company you have many options. With those options you have sales pitches reflecting the various firm’s perceived advantages, whether large, small, convenient or secure.

We at Equity Advantage pride ourselves on our expertise and our ability to get the difficult deal done. While we have been in business since 1991, it is the technical knowledge we have that sets us apart. It is this knowledge the tax and legal communities look to when difficult questions arise. Rarely is it a question of **whether** an exchange can be accomplished, more often than not it’s a question of **how** it can be accomplished.

Our abilities and reputation are our most valuable assets. Most of our clients are a result of a personal referral. We rely on our business relationships with our clients and their respective professionals. Our clients are comforted by their knowledge of our history, the security of their funds and the knowledge we are here to help them realize their objectives.

You have worked hard for your money and Equity Advantage works hard to keep it yours.

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