

1031 Exchange

FOCUS

SECTION 1031 OF THE INTERNAL REVENUE CODE IS ONE OF THE GREATEST WEALTH BUILDING TOOLS AVAILABLE TO INVESTORS



> Tax Reporting: 1031 Exchange

Internal Revenue Code Section 1031 allows investors to defer the payment of capital gains taxes when selling investment property.

Congratulations on completing a 1031 Exchange and using the power of tax deferral to build your wealth. The hardest part of the exchange process is over. Reporting the exchange on your tax return is straight forward but we still suggest using a CPA or tax advisor. The following memo is provided as a courtesy to our clients and colleagues and should not be considered tax advice. The information provided relates to forward exchanges and is not necessarily applicable for reverse or construction exchanges.

Preparing for tax reporting:

In anticipation of meeting with your tax advisor, please have closing statements ready for all properties involved in your exchange and the date you identified your replacement property. If you finished your exchange before your Identification deadline, please use the closing date you acquired your replacement property as the date of your identification.

Completed Exchange:

You will report your exchange using Federal Form 8824 for the year your Relinquished Property sold (2014 Form 8824 linked below). There is no equivalent state form, so preparing Form 8824 will be sufficient to report your exchange for both your State and Federal returns. The information you provide on Form 8824 will flow to your Federal Schedule D and the equivalent State form.

Failed Exchange:

If your exchange failed, you will report your taxable sale using Schedule D of Form 1040 for the year in which your Relinquished Property sold. Please note that if your Relinquished Property sold in one year and your exchange failed in the next year, you will use Installment Reporting (Form 6252) to bridge the two years. Installment reporting is particularly important if your exchange accommodator withheld state taxes on your failed exchange.

What state tax return?

You will be required to report your exchange in the state where the Relinquished Property was located and the state of your primary residence.

Turbo Tax:

As mentioned above, we do suggest using a CPA or tax advisor to report your 1031 Exchange. However, for do it yourself reporters, please see this link to assist with your reporting.

Turbo Tax Help:

<https://ttlc.intuit.com/questions/1901201-form-8824-likekind-exchanges>

Form 8824

<http://www.irs.gov/pub/irs-pdf/i8824.pdf>

Federal Schedule D

<http://www.irs.gov/pub/irs-pdf/f1040sd.pdf>

Installment Reporting

<http://www.irs.gov/pub/irs-pdf/f6252.pdf>

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