

1031 Exchange Update

Presented by:



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Asset Exchange Company

What is an Accommodator?



Holds all sale proceeds



Prepares all required legal documentation



Insures compliance with IRC Code Sec 1031



Asset Exchange Company

Asset Exchange Company (est. 2006)



Errors and Omissions Insurance and
Fidelity Bond



Member of the CA Board of Accountancy



Member of the State Bar of California



Free Audit Support



Asset Exchange Company

1031 Exchange

IRC Section 1031

- **Investment** Real Estate
- Tax **Deferral**

Internal Revenue Code Section 1031 is one of the single greatest wealth building tools available to the real estate investor.



1031 Guidelines

Types of Exchanges

- Simultaneous Exchange
- Delayed Exchange
- Reverse Exchange
- Construction/Improvement Exchange



1031 Guidelines

Basic Requirements:

- ✓ Property Qualifications
- ✓ Tax Deferral Requirements
- ✓ Timeline
- ✓ Identification Rules



Guideline #1

Property Qualifications

- ✓ Held for productive use in trade or business or for investment.
- ✓ Like kind
 - Foreign property is NOT like kind
 - Quick Flips are NOT like kind



Guideline #2

Tax Deferral Requirements

- ✓ Reinvest all cash.
- ✓ Purchase price equal or greater in value.



Guideline #3

Timeline

- 180 days
- 45 day identification period.

Day 0

Close of
Escrow

Day 45

Identification
Letter Due

Day 180

Exchange
Completed



Guideline #4

Identification

- ✓ 3 Property Rule
- ✓ 200% Rule

Identification Letter

Address, City, State Sale Price
Relinquished Property: _____ \$ _____

Client Name: _____

Regulations require that identification of replacement properties be made within 45 days of the close of your relinquished property. Two rules and one exception apply for all identification. Please check the box that indicates your method for identification:

- ☐ The Three Property Rule - Any three properties of any value may be identified.
- ☐ The 200% Rule - Any number of properties provided the aggregate value not exceed 200% of the value of the relinquished property. Please attach list of properties.
- ☐ The 95% Exception - Any number of properties of any value, provided that at least 95% of the identified property value is acquired within 180 days. Please note that this exception is very rarely, if ever used. Please attach list of properties and also contact Asset Exchange to inform us that you will be using the 95% Exception.

	<u>Address, City, State (include unit # if applicable)</u>	<u>Ownership %</u>	<u>Est. Purchase Price</u>
Property #1	_____	_____	\$ _____
Property #2	_____	_____	\$ _____
Property #3	_____	_____	\$ _____

How many properties will be acquired? If unsure at this time, please state "Unknown".

- ☐ One (1) ☐ Two (2) ☐ Three (3)
☐ Unknown ☐ Other (specify) _____

Signature (All parties, Including Spouses) _____

Date _____

THIS FORM MUST BE SUBMITTED NO LATER THAN DAY 45 OF YOUR EXCHANGE. RETURN BY EMAIL IS PREFERRED, EMAIL TO ADAM@AX1031.COM (PLEASE KEEP COPY OF YOUR SENT EMAIL). IF RETURNED BY FAX, PLEASE SEND TO 877-480-1031 AND TIME STAMP FAX, IF POSSIBLE. IN ADDITION TO EMAILING OR FAXING TO ASSET EXCHANGE COMPANY, YOU MAY WANT TO FAX OR EMAIL TO YOUR CPA OR TAX ADVISOR AS ADDITIONAL EVIDENCE OF IDENTIFICATION. SIGNATURE OF THIS FORM ALSO CONFIRMS EXCHANGOR HAS READ "IMPORTANT NOTES", ATTACHED TO THIS DOCUMENT.

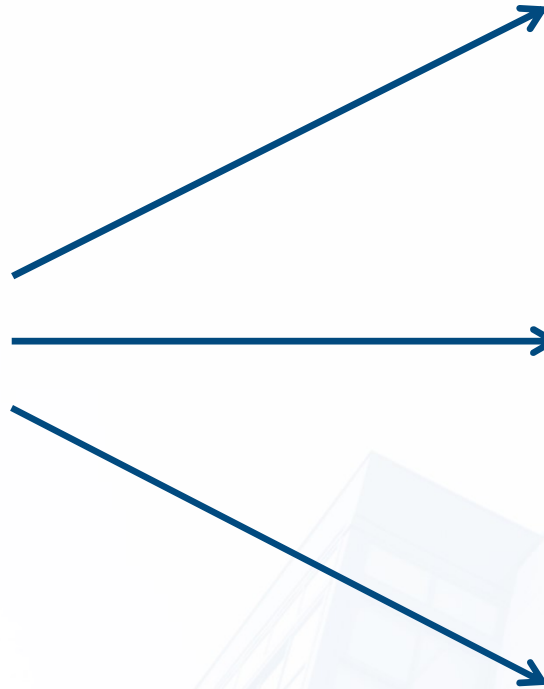
Phone: (877) 471-1031 info@ax1031.com

Fax: (877) 480-1031 www.ax1031.com



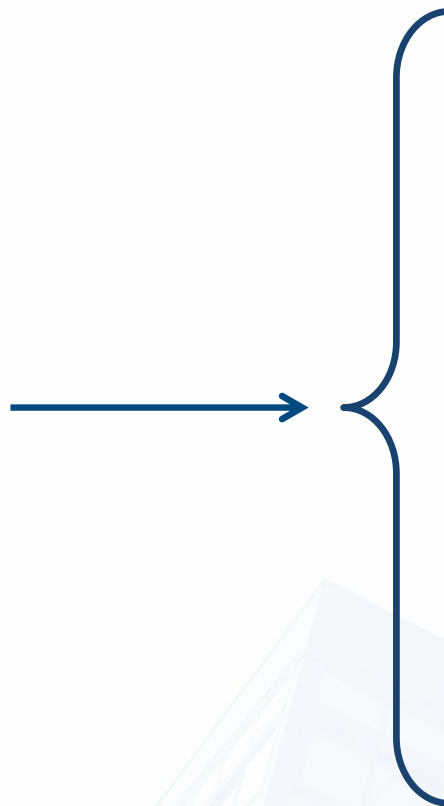
Guideline #4

3 Property Rule



Guideline #4

200% Property Rule



200%

1031 Guidelines

Basic Requirements

- ✓ Property Qualifications
- ✓ Tax Deferral Requirements
- ✓ Timeline
- ✓ Identification Rules



Steps Involved



Property Listed for sale



Offer accepted



Asset Exchange Company Open 1031 Exchange Account



Sign sale and exchange documents



Close Escrow



Asset Exchange Company

30 day Escrow

Steps Involved



Close Escrow



Sale proceeds wired to the 1031 Exchange Accommodator
Accommodator issues "receipt of funds" notice

Exchangor looks for replacement property

Exchangor submits property ID letter

Exchangor gets into contract & opens escrow

Accommodator prepares Phase 2 docs
& sends out funds for deposit

Accommodator wires remaining \$
Escrow closes
Exchange completed



Questions

Q: Client acquired a rental 11 months ago, can it be exchanged?

A: Yes; although it is an aggressive tax move. We recommend a client own a property for 24 months. Anything less than 24 months should be approved by CPA.



Questions

Q: Client sold land and would like to 1031 Exchange into 4 mobile homes. Is this allowed?

A: No: Mobile homes, unless they have a foundation, are considered 'personal property' not 'real property'.



Questions

Q: Client sold for \$500K and acquired a property for \$450K. What is done with the leftover \$50K?

A: The client has a few options:

1. Client can chose to pay taxes on the \$50K and pocket the cash
2. Purchase an additional replacement property for \$50K or more.
3. Client can use the \$50K (tax free) to improve the newly acquired property.



Questions

Q: Client would like to sell a rental and exchange into a primary residence, is this possible?

A: No. The replacement property in a 1031 Exchange needs to be held for business or investment purposes.



Questions

Q: Client would like to sell 2 properties and exchange into one. Is this possible?

A: Yes. Provided the 2 replacement properties are equal or greater in value to what was sold, all taxes will be deferred.



Reverse Exchange

Why do a Reverse Exchange?

- Seize the Moment – the buy of a lifetime
- Insurance Policy – Overheated market, protect your exchange (insurance policy)
- Poor Planning – My property isn't selling when I thought it should and I've already made an offer



Reverse Exchange

Buy first, then sell

Replacement



- EAT warehouses the “replacement property”
- Client operates property under a NNN lease agreement
- Client takes title when relinquished property sells

Relinquished



- Relinquished property must sell within 180 days
- Property sells, taxes deferred
- Property does not sell, client owns 2 properties

Construction Exchanges

Use 1031 Exchange Funds to improve or build a property



- Relinquished property sells
- Funds sent to Accommodator

- EAT warehouses the “replacement property”
- Accommodator holds remaining funds

- Accommodator disburses all funds to contractors
- Client manages all construction

- EAT transfers new/improved property to client

Why Investors Exchange:

Tax Deferral

- 1/3 of total gain goes to pay taxes.

Buy “MORE” Property

- Utilize “saved/deferred taxes” to leverage into a larger property.
- Exchange from a property that has a high equity position into a much more valuable property.

Diversification

- Geographic diversification.
- Asset class diversification.

Longtime Ownership Issues

- Relief of management burden.
- Exchange from a fully depreciated property to a higher value property that can be depreciated.



Contact Info

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