

# MASTERING THE 1031 EXCHANGE:

A Step-by-Step Guide for Investors



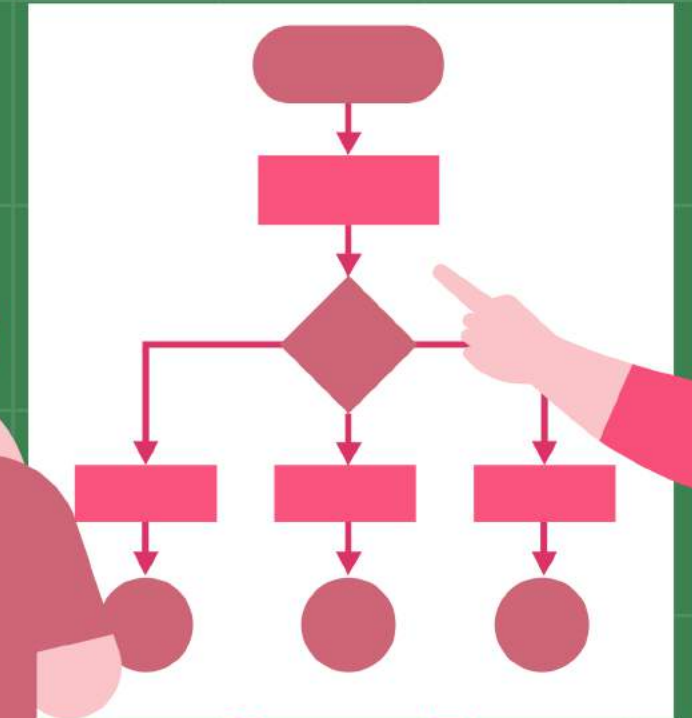


# STEP 1: DETERMINE ELIGIBILITY

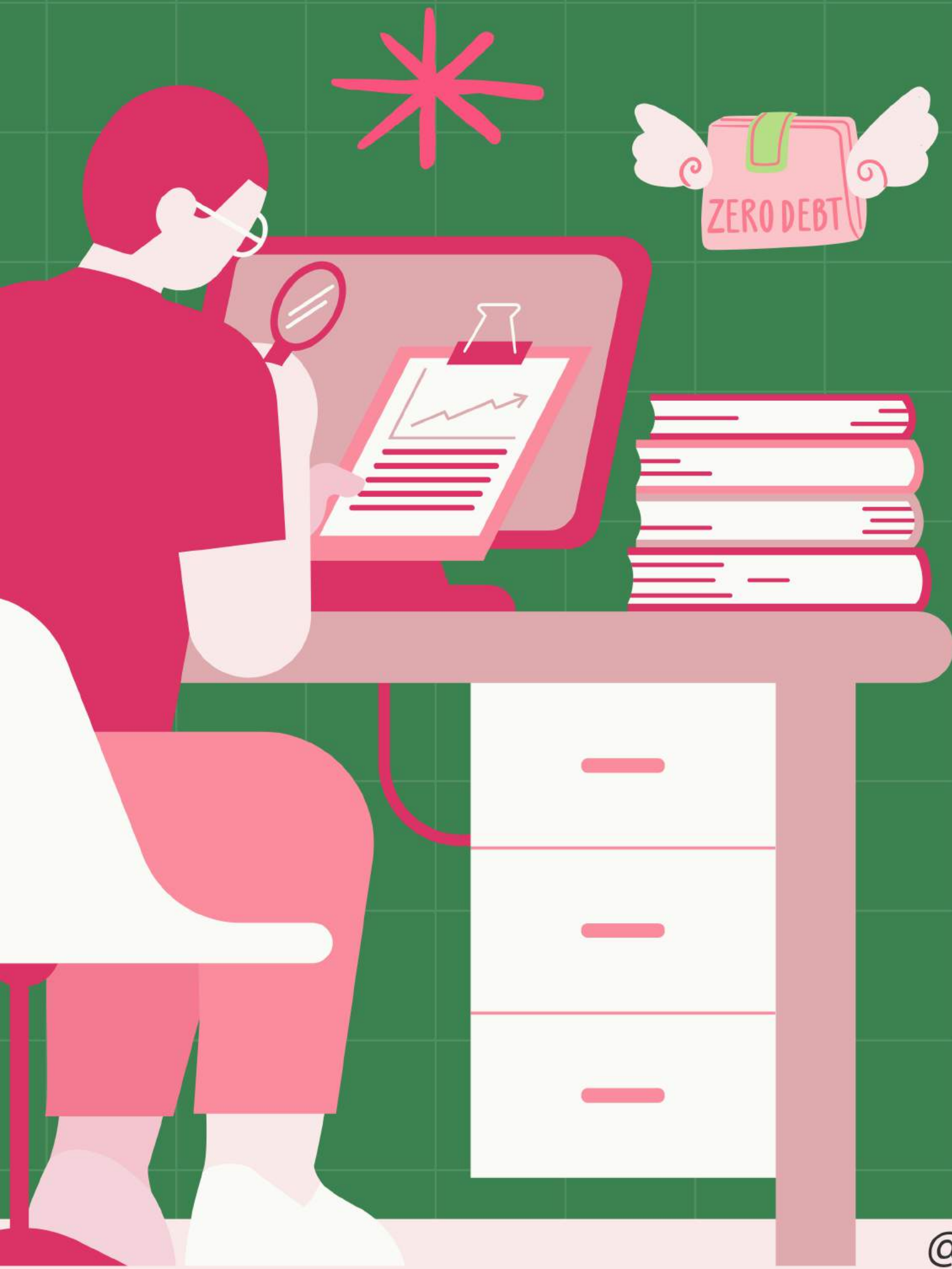
Ensure that the property being sold (relinquished property) and the property being acquired (replacement property) are held for investment or business purposes. Personal residences do not qualify.

Consult with Professionals:

Engage a qualified intermediary (QI), real estate agent, tax advisor or CPA, real estate attorney, and financial advisor to guide you through the process.





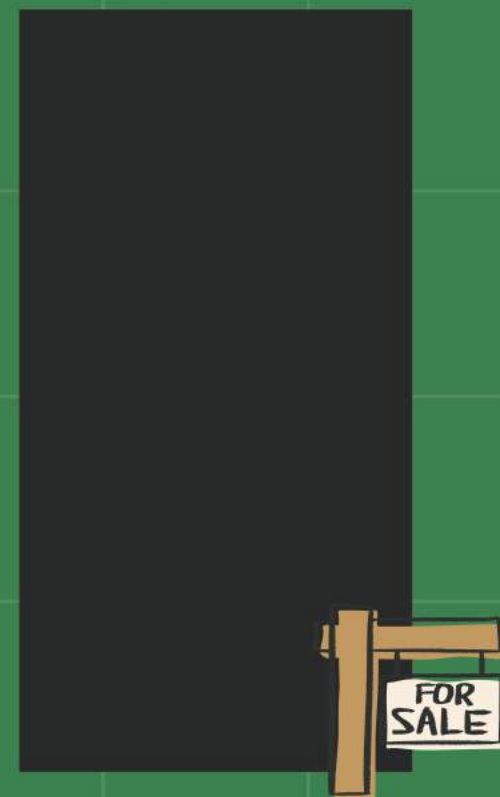


# STEP 2: LIST THE PROPERTY



**Work with a real estate agent to list and market your investment property for sale.**

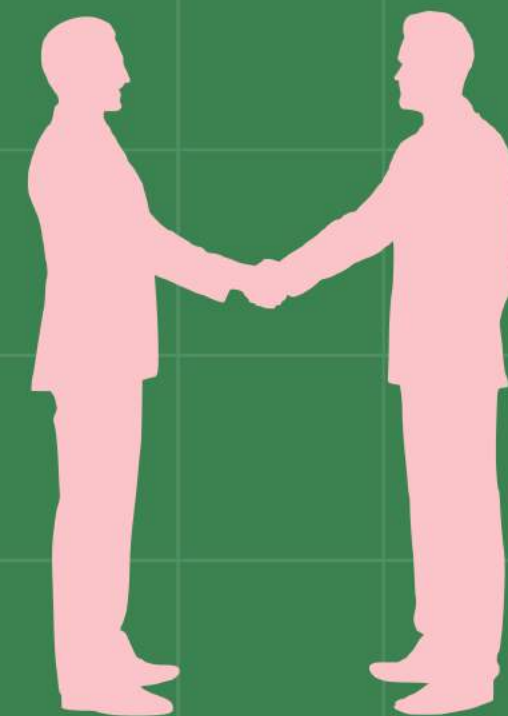
Once you find a buyer, enter into a sales agreement. Inform the buyer that you intend to complete a 1031 exchange.



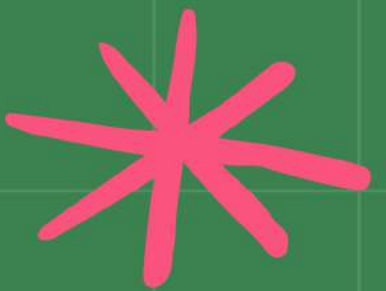
List The  
Property



Sales  
Agreement



Inform The  
Buyer





# STEP 3: SELECT A QUALIFIED INTERMEDIARY (QI):

Hire a QI to handle the exchange funds. The QI must be an independent third party and cannot be your agent, attorney, accountant, or business partner.



## **Execute Exchange Agreement:**

Sign an exchange agreement with the QI, outlining the terms and process of the 1031 exchange.

## **Note:**

Escrow companies can act as Qualified Intermediaries (QIs) in a 1031 exchange, but not all do so be sure to check.







## STEP 4: CLOSE ON THE RELINQUISHED PROPERTY

At closing, the proceeds from the sale are transferred to the QI, not to you directly.

### BEGIN THE IDENTIFICATION PERIOD:

The 45-day identification period starts the day after closing. You must identify potential replacement properties within this timeframe.



# STEP 5: IDENTIFY REPLACEMENT PROPERTY


Identify up to three properties regardless of their value, or any number of properties as long as their combined value does not exceed 200% of the relinquished property's value.

## BEGIN THE IDENTIFICATION PERIOD:

Provide written identification of the replacement properties to the QI within 45 days.







# STEP 6: NEGOTIATE AND ENTER INTO A PURCHASE AGREEMENT

**Choose Replacement Property:**  
Select one of the identified properties to purchase.

**Negotiate Terms and Enter Agreement:**  
Work with your real estate agent to negotiate the terms and enter into a purchase agreement for the replacement property.



INVEST



INVEST



# STEP 7: CLOSE ON THE REPLACEMENT PROPERTY

## Complete the Purchase:

Work with the QI and your real estate attorney to close on the replacement property. Ensure that the QI transfers the exchange funds directly to the seller of the replacement property.

## Meet the 180-Day Deadline:

The entire exchange, from the sale of the relinquished property to the purchase of the replacement property, must be completed within 180 days from the initial closing.



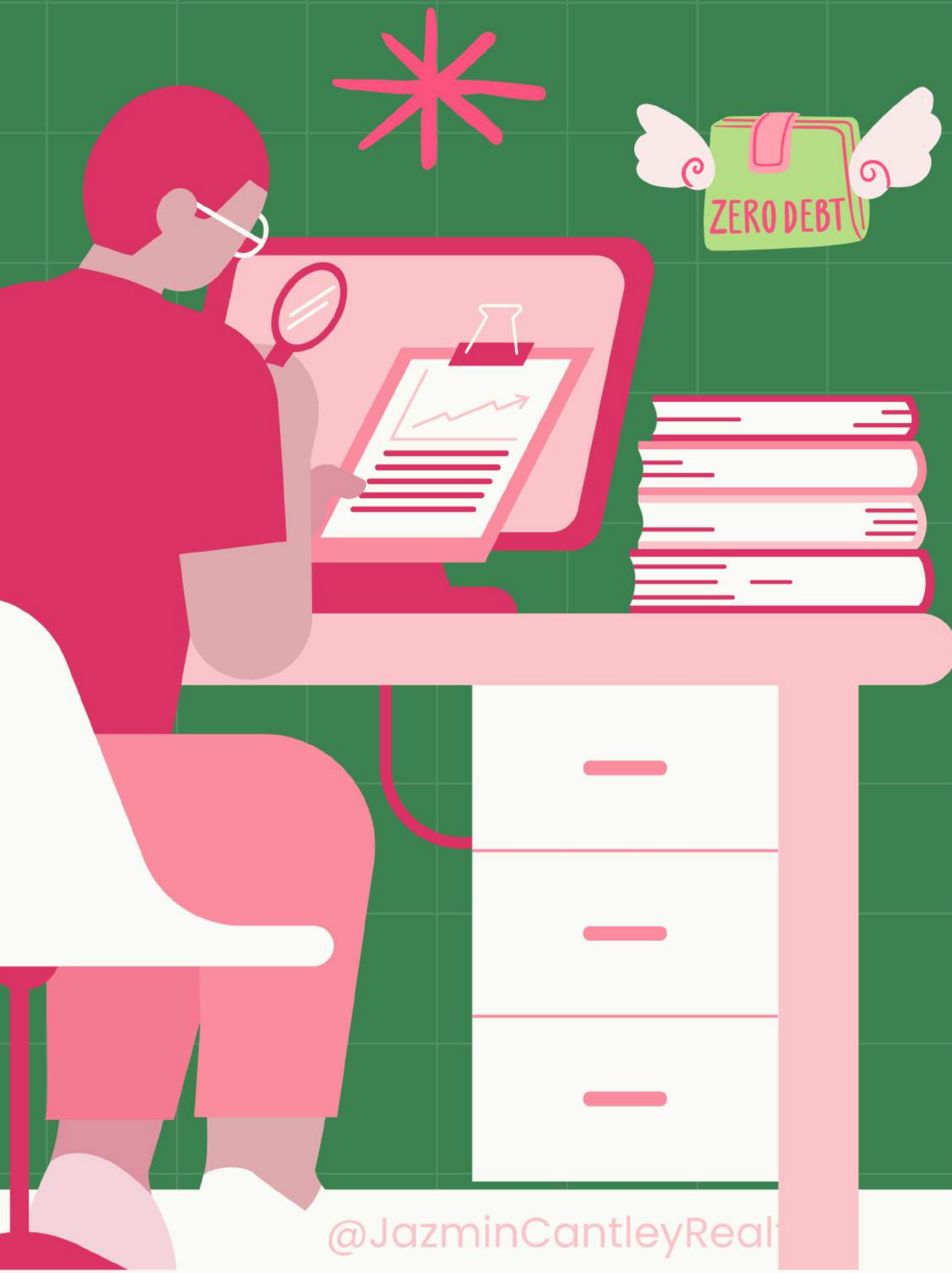
# STEP 8: REPORT THE EXCHANGE TO THE IRS

File Form 8824:  
Complete IRS Form 8824, "Like-Kind Exchanges," to report the 1031 exchange on your tax return for the year in which the exchange took place.

**Include All Necessary Documentation:**  
Attach all required documentation, including the exchange agreement, identification of replacement property, and closing statements.







# ADDITIONAL TIPS

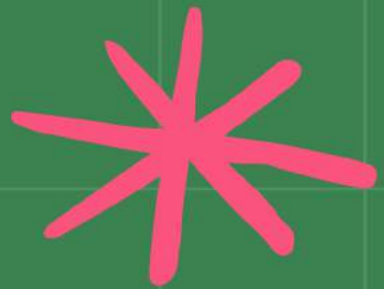


## **Adhere to All Deadlines:**

Missing the 45-day identification or 180-day completion deadlines can disqualify the exchange.

## **Like-Kind Property:**

Ensure that the properties exchanged are of like-kind, meaning they are both held for investment or productive use in a trade or business.



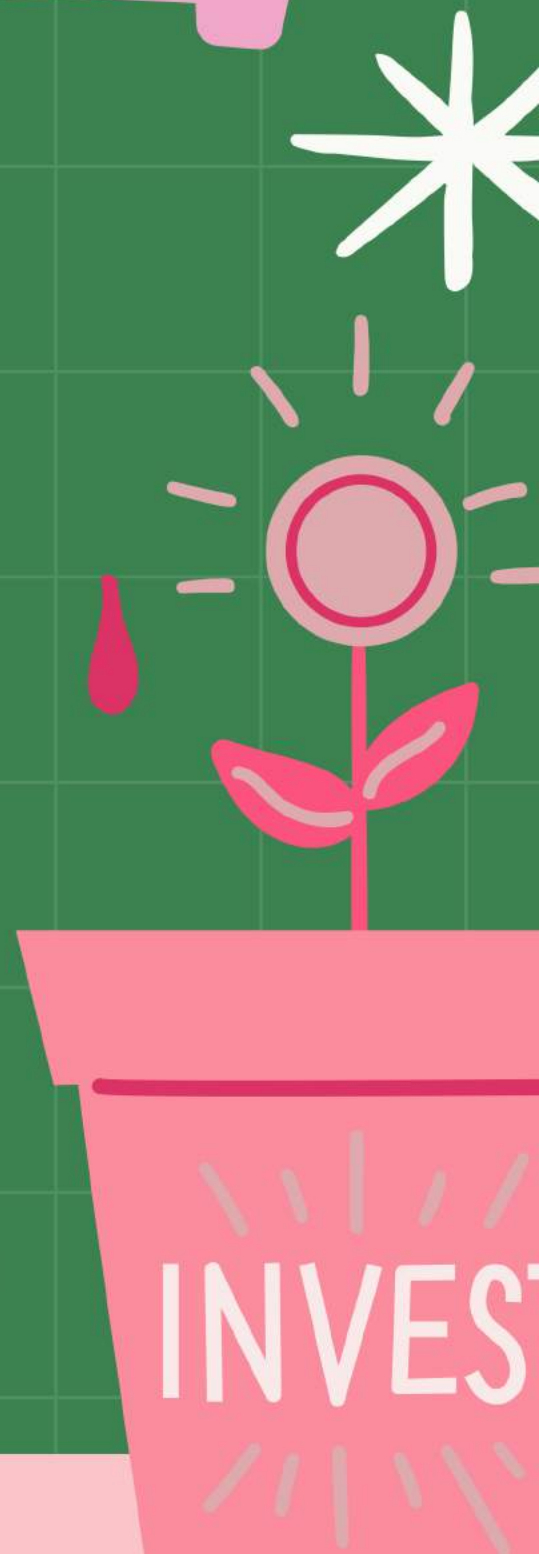
## **Consult Regularly with Your Team:**

Regular communication with your QI, real estate agent, tax advisor, and attorney is crucial to ensure compliance and smooth execution of the exchange.



# 1031 EXCHANGE TERMINOLOGY

- **1031 Exchange:** A tax-deferral strategy that allows investors to sell a property and reinvest the proceeds in a new property, deferring capital gains taxes.
- **Qualified Intermediary (QI):** An independent third party who facilitates the 1031 exchange process by holding the sale proceeds and ensuring compliance with IRS regulations.
- **Relinquished Property:** The property being sold in a 1031 exchange.
- **Replacement Property:** The property being acquired in a 1031 exchange.
- **Like-Kind Property:** Properties that are of the same nature or character, even if they differ in grade or quality. In a 1031 exchange, both the relinquished and replacement properties must be like-kind.
- **Identification Period:** The 45-day period following the sale of the relinquished property during which the taxpayer must identify potential replacement properties.
- **Exchange Period:** The total time allowed to complete the 1031 exchange, which is 180 days from the closing of the relinquished property sale.
- **Boot:** Non-like-kind property received in an exchange, such as cash or other non-qualifying property. Boot is subject to capital gains taxes.
- **Deferred Exchange:** A type of 1031 exchange where the replacement property is acquired after the relinquished property is sold, using a qualified intermediary to hold the funds in the interim.
- **Simultaneous Exchange:** A type of 1031 exchange where the relinquished property and replacement property transactions occur on the same day.
- **Reverse Exchange:** A type of 1031 exchange where the replacement property is acquired before the relinquished property is sold.
- **Exchange Agreement:** The legal agreement between the taxpayer and the qualified intermediary outlining the terms and conditions of the 1031 exchange.
- **Constructive Receipt:** When the taxpayer has control over the sale proceeds, either directly or indirectly. Constructive receipt disqualifies the exchange for tax deferral.
- **Capital Gains Tax:** A tax on the profit realized from the sale of a non-inventory asset, such as real estate.
- **IRS Form 8824:** The form used to report a like-kind exchange to the IRS. This form must be filed with the taxpayer's tax return for the year the exchange took place.
- **Title Company:** A company that verifies the legal ownership of a property and ensures that the title is clear of any liens or disputes.
- **Escrow:** A financial arrangement where a third party holds and regulates the payment of funds required for two parties involved in a given transaction.
- **Due Diligence:** The investigation and evaluation of a property before its purchase to ensure there are no hidden issues or risks.
- **Closing Statement:** A detailed document that summarizes all the financial transactions and expenses related to the sale and purchase of properties in a 1031 exchange.
- **Net Sale Proceeds:** The amount of money received from the sale of the relinquished property after deducting selling expenses, which must be reinvested in the replacement property to defer capital gains tax.







# THANK YOU

By following these steps and working closely with your team of professionals, you can successfully navigate a 1031 exchange and defer capital gains taxes on your investment property.



**JAZMIN  
CANTLEY**

**REALTOR | Mobile Notary**

DRE # 02174319 | COMM:2411334

**(602)419-8635 | (619) 887-4194**

if you have any questions , you can literally call or text me anytime!

-Jazmin Cantley

@JazminCantleyRealty

