



\$ 1031 Exchange News

Mechanics of an Exchange

Why Choose Exchange Resources, Inc. as Your Qualified Intermediary

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For 1031 Tax Deferred Exchange Information:

- **Simultaneous**
- **Delayed**
- **Build-to-Suit**
- **Reverse**



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The exchanger must meet three requirements to fully defer all capital gain taxes:

1. Reinvest all net proceeds into the replacement property.
2. Obtain an equal or greater amount of new debt on the replacement property or add equivalent cash to offset the debt difference.
3. Title to the replacement property must vest in the same manner as how the relinquished (sold) property was conveyed.

EXAMPLE 1

Sales Price	\$400,000	Replacement Property	\$700,000
Minus Debt	(\$150,000)	New Debt	\$480,000
Minus Cost	(\$ 30,000)		
Net Proceeds	\$220,000	Down Payment	\$220,000

The exchanger reinvested all of the net proceeds and acquired a greater amount of debt. Therefore, this exchange is fully taxed deferred.

EXAMPLE 2

Sales Price	\$400,000	Replacement Property	\$340,000
Minus Debt	(\$150,000)	New Debt	\$140,000
Minus Costs	(\$ 30,000)		
Net Proceeds	\$220,000	Down Payment	\$200,000

Since there is an excess of exchange proceeds of \$20,000 and a debt difference of \$10,000, the sum total of \$30,000 is considered 'boot' which is taxable. In this example, there will be a 3 1/3% withholding on the cash boot of \$20,000 if the property is located in California.

When considering an exchange, Exchange Resources, Inc. highly recommends that the taxpayer seek counsel of their CPA and attorney to obtain professional and legal advice. ERI cannot and does not provide advice regarding specific tax consequences.