Did You Know You Can Defer Capital Gains on Investment Properties With a 1031 Like-Kind Exchange?

As an investor in real estate, you may be able to take advantage of IRS Section 1031.

A 1031 exchange is also referred to as a Like-Kind exchange because it is a swap of one investment property for another.

Here are the top 5 things you should know about Section 1031

1. You can change your investment to another property without cashing out the sale or recognizing the income as capital gains. This allows for tax-deferred growth of your initial investment.
2. There is no limit to how often you use the Section 1031 option. You can roll over your initial investment as many times as you like. You will only need to pay capital gains on the investment when you cash out.
3. Like-Kind is a general term and allows you to exchange many types of investment properties – they do not need to be the same type of investment. For example, you can exchange an apartment building for raw land or a strip mall.
4. One rule you need to be wary of is the Depreciable Property rule. If you swap improved land with a building for unimproved land without a building, the depreciation you previously claimed on the building will be recaptured as ordinary income.
5. There is a 45-day rule that states you must designate the replacement property for the property you sold. And a 180-day rule states you must close on the new property within 180 days of the sale of the old property.

This sounds pretty simple, but some exceptions and clarifications may come into play with your individual scenario. Tax rules can change based on current legislation so it is advisable to work with a qualified CPA regarding the tax implications for your investment property.