

1031 Basics Checklist

Episode 1: What Is a 1031 Exchange?



1. Ask: Is The Property I'm Selling Eligible?

- It must be held "for productive use in a trade or business" or for investment.
- You must plan to acquire like-kind replacement property.
- Understanding "like-kind": generally, it is broad enough to mean qualifying investment real estate of any asset class.
For example: an apartment building can be exchanged for a similar real estate interest in an industrial building or a single-family home.

2. Before You List, Do This! Before you list, you must do your due diligence. This includes:

- Consulting your tax, financial and/or legal advisor(s).
- Understanding your adjusted basis and total tax liability.
- Contacting a Qualified Intermediary ("QI") at least two weeks **BEFORE** closing.
 - A 1031 exchange must be structured as an exchange, not as a sale and purchase. To accomplish this, a QI must be assigned into the sale of the relinquished property and exchange documents must be signed no later than the day of closing.
 - If the seller receives or has control over the funds (for example, if the closing occurs without a QI's involvement), the exchange could fail.
- Begin researching replacement property options.

3. Know the Timeline

The 180-Day Timeline is crucial to the 1031 Exchange Process and missing a deadline can likely disqualify the exchange. To ensure a smooth transaction, be sure to memorize the below timeline:

- **Day 0:** Relinquished property closes.
- **Within 45 Days:** Identify replacement property(ies).
- **Within 180 Days:** Close on the replacement property(ies).

4. Questions to Ask Yourself:

- What is my adjusted basis and total tax liability (including capital gains and depreciation)?
- Do I want to identify more than one replacement property?
- Who on my advisory team needs to be involved?
- Will I realistically meet the timeline requirements?
- Is a 1031 exchange actually the right fit?
- Do I need any cash from the sale, or can I reinvest all proceeds into replacement property?
- Have I contacted a QI before closing so I do not receive the sale proceeds?
- Does a 1031 exchange fit my tax, timing, liquidity, and long-term real estate plan?
- Are there any possible replacement property options or markets that are realistic, viable options for my portfolio?

