

1031 Tax Deferred Exchanges

SMART REAL ESTATE INVESTING

A 1031 Exchange —The Ultimate Tax Free Strategy

What is a 1031 Real Estate Exchange, and what are its benefits? A 1031 Exchange is the IRS' best-kept secret. It allows owners of certain types of property to sell their property and buy other property without paying capital gains tax. No other section of the Internal Revenue Code allows owners of capital assets to defer the payment of taxes indefinitely.



Midland 1031 has been helping taxpayers perform Section 1031 Exchanges since 1995. We are an experienced, company that has hands-on

expertise with thousands of 1031 exchanges.

Dave Owens, President of Midland 1031, has been an tax accountant for over 26 years and is well-versed in the tax code regarding Section 1031. He is also a member of the Federation of Exchange Accommodations and Certified Exchanges Specialist.

Section 1031 states, "No gain or loss shall be recognized on the exchange of property held for business or investment if such property is exchanged solely for property of like kind." If you buy up in value on your next real estate purchase, you will pay no tax. If you buy down in value there is an opportunity to defer part of the capital gains tax.

The like-kind provision for real estate is quite broad, and includes land, rental, and business property. Any of these types of property can be exchanged for the other.

In a 1031 Exchange you can also sell one piece of real estate and purchase multiple properties. Or, you may sell multiple properties and merge your equity into one larger property.

Midland 1031 is nationwide Qualified Intermediary with offices in Fort Myers and in Chicago. When you are ready to make a smooth and easy 1031 Exchange, we are available to assist you in every aspect. Call us today at 239-333-1031.

What is Like-Kind Property?

In a 1031 Exchange, all real estate qualifies for a like-kind exchange. In the eyes of 1031, all real estate is created equal. For example, farmland can be exchanged for an office building, or a condominium can be exchanged for a trailer park. The state law of the jurisdiction in which the property is located will define the definition of real estate.

- *Foreign real estate is not like-kind to real estate in the U.S.*
- *A partnership interest that owns real estate is not like kind to real estate. The partnership may perform a 1031, but not the partner.*
- *Personal property (e.g. REITs Shares) is not like-kind to real property.*

Property that is the subject of an exchange must be held for a proper purpose, namely for "productive use in a trade or business, or for investment."

In determining the use for which property is held, the key factors are the intent of the Taxpayer at the time of the exchange, as well as the trade or business of the taxpayer. The IRS also looks at how long the Taxpayer "held" the property prior to the exchange.



ADVANTAGES of EXCHANGING

Anyone who is thinking about selling a business use or investment property should consider affecting a 1031 Exchange. An exchange offers the astute investor an opportunity to reinvest the federal capital gains that would normally be handed over to the IRS and put that money to work for himself. You work too hard to simply pay the tax without carefully considering this reinvestment option.

Essentially, 1031 Exchanges could be thought of as an interest free loan from the IRS; one in which the principal may be increased through subsequent exchanges and may never require repayment.

- As an exchanger, you will have more buying power because the federal income taxes are deferred. The additional equity to reinvest will make you a more solid buyer and help you get easier financing.
- You can exchange numerous times. This creates a pyramid effect, causing your equity to grow. Under the current estate laws, the tax liability on appreciated property would be forgiven based on a stepped-up basis on the inherited property.
- You can acquire a replacement property with greater income potential. For instance, you can sell raw land and acquire income-producing property. Or, you might acquire a building with additional units or in an easier to rent location.

Calculate Your Savings*

STEP ONE

Sale price of first property
 Add: Depreciation
 Less: Closing costs
 Less: Cost of first property
 Equals: Gain on sale of first property

STEP TWO

Purchase price of replacement property
 Less: Gain from step one
 Add: Transaction cost exchange or purchase
 Equals: Depreciable basis of replacement property

TAX SAVINGS

Gain calculated in step one
 Multiply by 15/ 20% (based on your tax bracket)
 Equals: Capital gains tax saved

*This formula is for illustration purposes only. Please consult your tax advisor

OUR QUALIFICATIONS

Since 1995, Midland 1031 has been helping taxpayers enjoy the investment power of the 1031 Exchange.

We can assist with each stage of your exchange, including serving as your "Qualified Intermediary," which is an element required by the IRS. As your QI, we protect your money in our escrow account. Midland 1031 is bonded and insured.

Whether you have performed exchanges before or are executing one for the first time, feel free to call us to take advantage of the wealth building power of a 1031 Exchange.

Call today at 239-333-1031

How Do I Complete an Exchange?

1. Call us before closing on your sale. We will send you a client information form to complete and return along with a copy of the contract for your sale.

2. We prepare an exchange agreement for you to sign. You return the signed exchange contract to us and we will coordinate your 1031 exchange with the closing title company.

3. We escrow the sale proceeds. You have 45 days from closing to identify replacement property using a form that we provide. You have 180 days from closing to close on that property.

4. We work with the Title Company or Attorney handling the purchase of your replacement property to facilitate and finalize the 1031 exchange

Offices in Fort Myers and Chicago

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A little less taxing...



MIDLAND 1031