

How to Achieve 100% Tax Deferral in your 1031 Exchange



Important Dates of Exchange Timeline:

- **Day 1-Begin Exchange:** The exchange period begins at close of escrow on your relinquished (sale) property.
- **45-day identification period:** You have until midnight of the 45th calendar day to identify your replacement property(ies).
- **180-day exchange completion period** – You have up to 180 calendar days to complete your exchange. If all requirements are met, then your exchange is complete.

How to Properly Identify Replacement Property:

- You must submit your replacement property ID:
- ⇒ To the “QI” (Granite Exchange Services) or any other person that is required to transfer title to the Exchanger;
 - ⇒ in a written signed document;
 - ⇒ faxed, mailed, hand delivered, or otherwise sent and;
 - ⇒ by midnight of the 45th day of the exchange period.

Identification Rules:

You may choose one of the following rules to identify your replacement property(ies):

The Three-Property Rule (most common): Identify up to three properties, regardless of their fair market values.

~or~

The 200% Rule: Identify any number of properties so long as their total value does not exceed 200% of the sale property value.

~or~

The 95% Rule: Exchanger identifies any number of properties and receives at least 95 percent of the value of all the identified properties.

Other Requirements:

Two of the requirements an Exchanger must meet to achieve full tax deferral in a 1031 exchange are:

- 1) Reinvest all exchange proceeds.
- 2) Acquire like-kind property with the same or greater debt.

Example of Full Tax Deferral:

	<u>Phase I</u> (Sale)	<u>Phase II</u> (Purchase)
Mortgage Balance:	\$100,000	\$100,000
Equity:	\$200,000	\$200,000
Sales Price:	\$300,000	\$300,000
= FULLY TAX DEFERRED EXCHANGE		

Example of a non-fully tax deferred exchange - “Boot”:

	<u>Phase I</u> (Sale)	<u>Phase II</u> (Purchase)
Mortgage Balance:	\$100,000	\$75,000
Equity:	\$200,000	\$200,000
Sales Price:	\$300,000	\$275,000
= \$25,000 taxable gain (Boot)		

Definitions and Terms:

- ⇒ “QI”: Qualified Intermediary (Granite Exchange).
- ⇒ Like-kind: Any real property held for investment or in a trade or business.
- ⇒ Boot: Any cash or debt relief not replaced from sale that may be taxable.
- ⇒ 1031: Internal Revenue Code that allows an investor to defer capital gain tax on investment property.

What role does Granite Exchange Services play?

Granite Exchange Services is a national “qualified intermediary”. Per Internal Revenue Code Section 1031, in order to achieve a valid exchange you must use a “qualified intermediary” in your transaction.



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