

H.R. 4520

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Professional resources for Investors, Closers, Realtors, CPAs and Attorneys.

H.R. 4520

President Bush signed H.R. 4520 into law on October 22, 2004.

H.R. 4520 contains certain provisions that affect transactions where an investor has performed an IRC 1031 Tax-Deferred Exchange into a rental house as a replacement property and later converts the rental house into the Exchanger's principal residence.

As of October 22, 2004 all principal residence sales are subject to a five year holding period if the principal residence was originally acquired through an IRC 1031 tax deferred exchange.

For instance, prior to H.R. 4520, an investor that owned rental property could sell the investment property and acquire another rental property (typically a single family residence) through a 1031 Tax-Deferred Exchange. After renting the property for a minimum of 1 year, the investor would move into the rental property and convert it into his/her primary residence. Once the investor has lived in the property as his/her primary home for a minimum of 2 years, the investor could sell the primary residence and exclude up to \$250,000 in capital gains taxes if single and up to \$500,000 in capital gains taxes if married pursuant to a Section 121 Exclusion.

Under the new tax law the investor is now required to hold the property for 5 years before they can exclude capital gains under a 121 Exclusion if the property was acquired as part of a 1031 Tax-Deferred Exchange. The provisions of this new law are effective for personal residence sales occurring on or after October 22, 2004.

As with any exchange transaction, the investor is encouraged to contact a Granite Exchange Consultant at 877-937-1031 to discuss their specific situation.

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