



First American Exchange Company

Tax Saving Strategies Utilizing 1031 Exchanges

The 1031 tax deferred exchange is widely known and utilized by investors to defer capital gains tax when selling and buying investment property. To qualify under IRC Section 1031, the basic requirements to maximize your tax-deferral are:

- ⇒ Acquire “like-kind” property to be held for investment or productive use in a trade or business;
- ⇒ Identify replacement property within 45 days of closing the relinquished property;
- ⇒ Reinvest all your cash and acquire replacement property(ies) of the same value or more 180 days from the first closing; and
- ⇒ Use a qualified intermediary to meet the safe harbor.

There are, however, additional tax savings that are not as widely known that can be beneficial when it comes to selling your primary residence or vacation/second home. One of the strategies is briefly described below and, when properly executed, can help you save tax dollars.

QUALIFYING VACATION HOMES FOR 1031 TREATMENT

Many properties are owned as vacation homes, and a common area of confusion has been whether or not a vacation home qualifies for a 1031 exchange. In 2008, a revenue procedure was issued that provides a safe harbor for vacation homes*. The following are the requirements under the safe harbor:

- ⇒ Both the relinquished and replacement properties must have been owned by the taxpayer for at least 24 months immediately before and after the exchange.
- ⇒ In each of the two, 12-month periods immediately before and after the exchange, the properties must be rented at a fair-market value for 14 days or more.
- ⇒ The taxpayer’s personal use cannot exceed the greater of 14 days or 10% of the days during each 12-month period that the property was rented at a fair-market value.
- ⇒ Personal use includes: the taxpayer’s family members, any other person with an interest in the property or their families, anyone using the property under an arrangement which enables the taxpayer to use some other property (even if no rent is charged); or if the property is rented for less than fair market value rent.

With a bit of planning you can take advantage of the 1031 exchange and defer taxes on your gain when you sell your vacation home.

Understanding the tax saving strategies available through the 1031 exchange, along with proper planning and tax advice can help you save tax dollars! For additional information about the tax deferred exchange and these concepts contact your title representative.

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*1 Revenue Procedure 2008-16 Internal Revenue Service