

How To Help Your Clients Pay No Tax Through A 1031 Exchange

Presented by:

Real Estate Investment Services



www.rjgullo.com

Corporate Headquarters
3865 Seneca Street, Buffalo, NY 14224
(716) 675-1500
www.rjgullo.com

Who Can Benefit From This Presentation?

Real Estate Professionals listing any of the following property types:

- Parcels of land
- Single lots
- Single Family Rentals
- Rental Condos
- Double/Duplex
- Apartment Buildings
- Farms
- Hotels/Motels
- Commercial/Industrial Property
- Self Storage
- Mobile Home Parks
- Office Buildings
- Single Tenant NNN Property
- Plazas
- Oil & Gas Property

OR

Any Income-Producing or Investment-Held Property

Summary

Real Estate Professionals listing any property other than a Seller's primary or secondary residence

What Is A 1031 Exchange?

- A 1031 Exchange is an opportunity to PAY NO TAX by acquiring like-kind real property of equal or greater value. All net proceeds from the sale must be reinvested and any existing debt must be replaced in the acquisition.

Taxes that can be deferred include:

- Capital Gains Tax
 - Recapture of Depreciation
 - Net Investment Income Tax
 - and State Income Tax
- This presentation is based on **Section 1031** of the Internal Revenue Code.

What Are The Tax Advantages Of A 1031 Exchange Today?

- Example: The Exchangor acquired a 12-unit apartment building for \$240,000 in 1983 with \$60,000 as a down payment and a \$180,000 mortgage. Today the Exchangor has a buyer for the property for \$900,000. The property is now mortgage-free and has an adjusted basis of \$20,000.

Sale Vs. 1031 Exchange Example

	Sale	1031 Exchange
Basis at Acquisition	\$240,000	N/A
Capital Improvements	\$0	N/A
Cost Recovery (Depreciation)	\$220,000	N/A
Adjusted Basis	\$20,000	N/A

	Sale	1031 Exchange
Selling Price	\$900,000	N/A
Cost of Sale	\$0	N/A
Adjusted Basis	\$20,000	N/A
Gain/Profit	\$880,000	N/A
Suspended Losses	\$0	N/A
Gain/Profit After Losses	\$880,000	N/A

	Sale	1031 Exchange
Capital Gains Tax Liability (20% + 9%)	\$191,400	N/A
Recapture of Depreciation (25% + 9%)	\$74,800	N/A
Net Investment Income Tax (3.8%)	\$33,440	N/A
Total Tax Liability	\$299,640	N/A

	Sale	1031 Exchange
Gross Proceeds	\$900,000	\$900,000
Total Tax Liabilities	(\$299,640)	N/A
Net Proceeds	\$600,360	\$900,000

A 1031 EXCHANGE RESULTS IN A TAX SAVINGS OF \$299,640

Wealth Building Strategy

Relinquished Property:	
Fair Market Value	\$900,000
Existing Debt	(\$0)
Equity	\$900,000



Replacement Property:	
Fair Market Value	\$3,600,000
New Debt	(\$2,700,000)
Equity	\$900,000

Through a 1031 Exchange and the use of Leverage, the real estate portfolio value quadrupled!

What Are The Requirements To Take Advantage Of A 1031 Exchange?

1. Must be disposing of income-producing or investment-held real property.
2. Must re-invest back into other like-kind, income-producing or investment-held real property.

Personal Property no longer qualifies for 1031 Exchanges!

What Is Meant By Like-Kind Property?

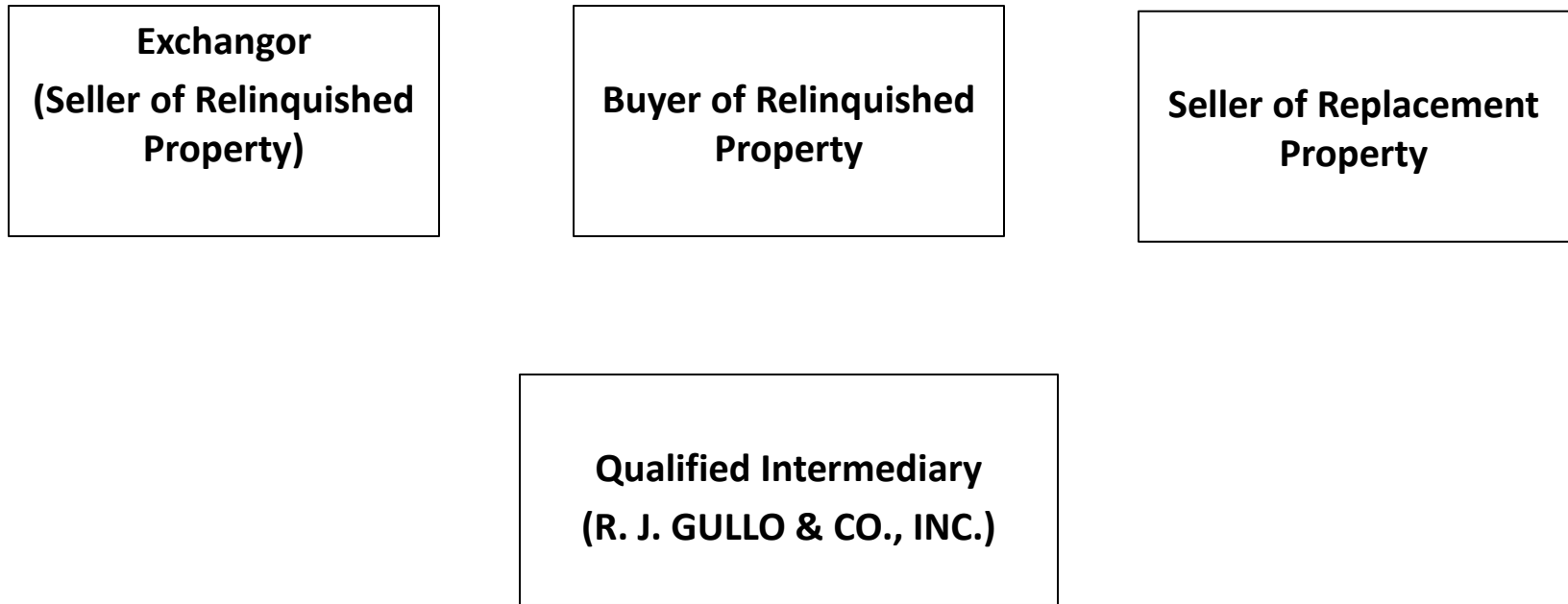
- Like-Kind Property refers to the character or nature of a property, rather than the quality or grade.

REAL ESTATE for REAL ESTATE

Examples of Like-Kind Property

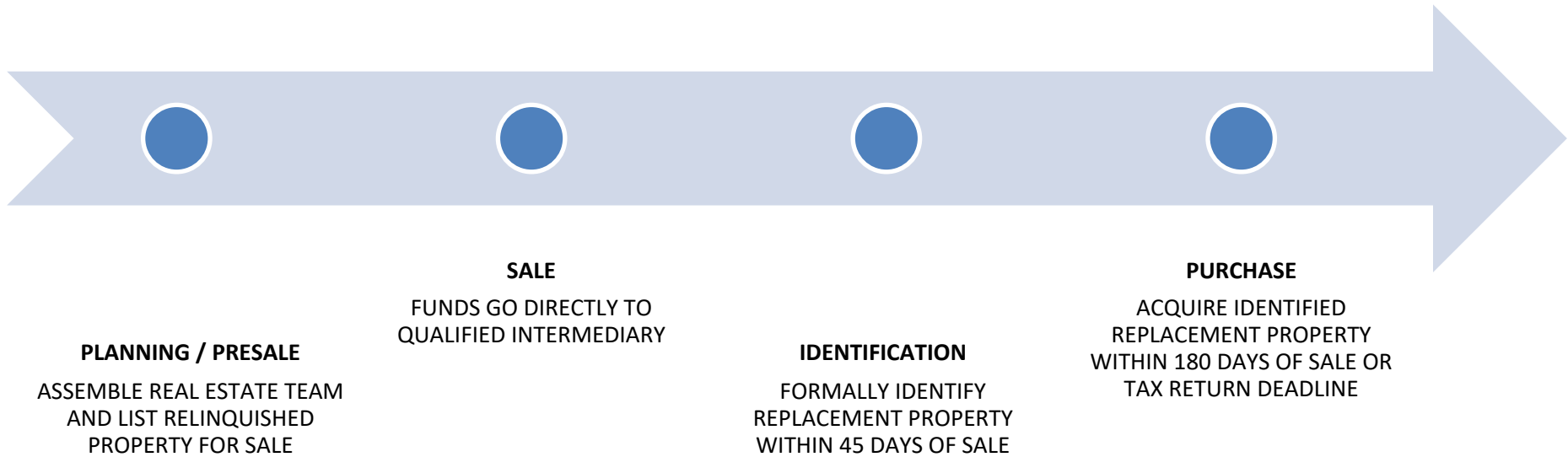
- Land for an Apartment Building
- Office Building for a Plaza
- Class C Office Building for a Class A Office Building
- Single Family Rental for Self Storage
- 5 Rental Duplexes for 1 Apartment Building
- Buffalo Mixed-Use Property for a Tampa Rental Condo
- Actively Managed Apartment Building for a Management-Free NNN Leased Investment
- Actively Managed Office Building for a Management-Free DST Co-Ownership Investment

How Does A 1031 Exchange Work?



Lawyers, Title Companies, Accountants, Financial Advisors, Real Estate Brokers, etc. are still involved in their normal duties!

Timeline



General Guidelines

Consult with tax and legal advisors since Qualified Intermediary is unable to provide tax or legal advice.

Exchange property held for investment or in a trade or business that has been held for a qualified period of time.
Property held as inventory or specifically for resale does not qualify.
Primary residences or secondary homes used primarily for personal purposes are disqualified as well.

Structure the 1031 Exchange prior to closing of the relinquished property sale. To avoid constructive receipt issues, the net proceeds must go directly to Qualified Intermediary.

Purchase identified replacement property of equal or greater value and equity.

Reinvest all cash proceeds in identified replacement property and replace any debt on relinquished property with new debt or new cash investment in the replacement property to avoid taxable debt relief. [Partial 1031 Exchange may be allowed]

Acquire replacement property as same federal taxpayer as owner of relinquished property.

Steps of a 1031 Exchange

1. Engage a Qualified Intermediary
2. The Exchangor assigns the rights of the Relinquished Property contract to the Qualified Intermediary
3. The Buyer of the Relinquished Property transfers cash to the Qualified Intermediary
4. The Exchangor gives the Relinquished Property title to the Buyer
5. The Exchangor identifies potential replacement property during the 45-day Identification Period.
6. The Exchangor assigns the rights of the Replacement Property contract to the Qualified Intermediary
7. The Qualified Intermediary transfers cash to the Seller of the Replacement Property
8. The Seller gives Title of the Replacement Property to the Exchangor
9. The 1031 Exchange is completed within the 180-day Exchange Period.

What Is A Professional Qualified Intermediary?

- A Qualified Intermediary is a person or entity that facilitates 1031 Exchanges and should have training in negotiations, contract law, taxation, investment analysis, escrow procedures and real estate practices.
- Since the Qualified Intermediary industry has little regulation governing these entities, it is **crucial** that the Qualified Intermediary has a proven track record with sufficient experience.

R. J. GULLO & CO., INC. has over forty years of professional Qualified Intermediary experience throughout the United States and can provide same-day service to structure 1031 Exchanges.

Who Cannot Be A Qualified Intermediary – Examples

- The Exchangor
- A Disqualified Person
- An Employee or Family Member of the Exchangor
- An Agent of the Exchangor during the past 24 months, or at the time of the Exchange Transaction. (i.e. attorney, accountant, real estate agent/broker or anyone else that provided a service to Exchangor for a fee, etc.)

Potential Issues

- Actual Receipt
- Constructive Receipt

Both reasons are why the IRS requires a Qualified Intermediary in a 1031 Exchange! They are the first thing IRS Agents are trained to look for during a potential audit.

1031 Exchange Clock

Beginning from the closing of the Relinquished Property:

1. 45 Days – Identification Period

- Exchangor can identify multiple replacement properties and does not have to be under contract for identification purposes

2. 180 Days – Exchange Period

- If not all 1031 funds are used to acquire identified replacement property, only the remaining funds would be subject to taxation. This is called a Partial Exchange.

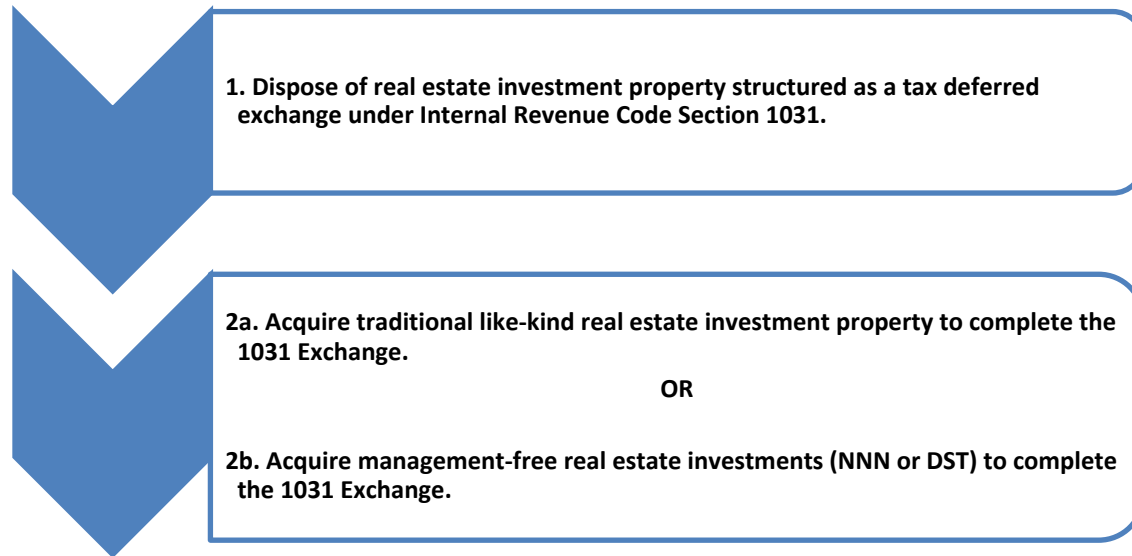
If either of the above deadlines are not met, the 1031 Exchange fails and the remaining funds are returned to Exchangor and the transaction is treated as if a normal sale occurred.

Types Of 1031 Exchanges

1. **Deferred Exchange – Sale before Purchase**
2. **Improvement Exchange – Use 1031 Funds towards improvements during the 180-day Exchange Period**
3. **Reverse Exchange –Purchase before Sale**

Note: The Exchangor can never own the relinquished property and replacement property at the same time. Exchange Accommodation Titleholder services are required for Improvement Exchanges and Reverse Exchanges, so it is important these types of transactions are structured appropriately.

Real Estate Investment Flowchart



NNN Lease Investments

- **Sole ownership of property leased to high quality tenants with corporate guarantees**
- **No management responsibilities**
- Recourse and non-recourse financing options available
- Locations available throughout the United States
- Qualify for 1031 Exchanges
- Estate planning / stepped-up basis
- Examples: Dollar General, Walgreens, CVS, etc.

DST Co-Ownership Investments

- **Fractional ownership of institutional-quality property that would otherwise be out-of-reach**
- **Only available to accredited investors**
- **No management responsibilities**
- Decision-making placed into hands of experienced sponsors
- **Limited personal liability through non-recourse financing**
- Different property types and locations available throughout the United States
- Qualify for 1031 Exchanges
- Readily available for 1031 Exchange identification purposes (backup option)
- Estate planning / stepped-up basis
- Examples: Class A Multifamily Apartment Complexes, NNN Lease Investment Portfolios, Medical Buildings, Amazon Distribution Centers, Senior and Student Living, Self Storage Portfolios, etc.

Summary

- A professional Qualified Intermediary is required
- You continue to list in the same manner as you would a traditional sale, using the same Bar or Board approved contracts
- You can still hold earnest money deposits

Contact Us For A Free Consultation!

Real Estate Investment Services



www.rjgullo.com

Services



1031 Exchanges



Real Estate Investment Brokerage



**Management-Free Real Estate Investments
(NNN or DST)**



Real Estate Investment Consulting

About Us



Russell J. Gullo, CCIM
Founder & CEO at R. J. GULLO COMPANIES
Licensed Real Estate Broker

Russell J. Gullo, CCIM, is Founder & CEO at R. J. GULLO COMPANIES.

Mr. Gullo has worked in the real estate investment industry for over forty years and has structured thousands of transactions. He is acknowledged throughout the United States as an expert on 1031 Exchanges and is experienced in real estate investment analysis, valuation, acquisitions, dispositions, co-ownership investments, and asset management.

Mr. Gullo is an instructor for the New York State Commercial Association of Realtors (NYSCAR) on 1031 Exchanges and a former adjunct professor at Canisius College where he taught Real Estate Investment, Real Estate Taxation and 1031 Exchanges. Mr. Gullo is a frequently invited guest speaker at real estate, legal and accounting conferences nationally and has authored hundreds of articles on various real estate investment topics. He is the former host of the “Real Estate Wealth Building Strategies” radio program.

Mr. Gullo holds a B.S. in Finance from Canisius College, is a Certified Commercial Investment Member (CCIM) and a Licensed Real Estate Broker in New York. He is a member of the CCIM Institute and the National Association of Realtors (NAR).

Mr. Gullo was listed in “Who’s Who In Creative Real Estate”, received the "Most Informative People In Creative Real Estate" award, and was the first inductee into the Exchangors Hall Of Fame.

**Contact us for a free consultation to learn how to
PAY NO TAX using a 1031 Exchange when you or
your clients are selling real estate investment
property**

Real Estate Investment Services

R. J. GULLO COMPANIES

www.rjgullo.com