

The right Choice – Infinity Exchange Services, LLC

Before the IRC Section 1031 Exchange

Before a §1031 exchange, **Infinity Exchange Services** will often engage with the taxpayer and their advisors to discuss the requirements for full tax deferral. If a taxpayer desires full tax deferral, this usually encompasses trading equal or up in net equity and debt on the replacement property or properties. Taxpayers are encouraged to consult their accountant in advance of the §1031 exchange to address tax related issues such as suspended carryforward losses that could offset possible cash or mortgage boot received. Many taxpayers might mistakenly move forward without consulting with their accountant before closing on the sale of the relinquished property. The professional QI performs a valuable role in directing the taxpayer to review their specific situation in advance with their appropriate legal and/or tax advisors to discuss their proposed exchange transaction before closing on the sale of the relinquished property.

During the IRC Section 1031 Exchange

Infinity Exchange Services plays an important role during the exchange process by helping guide the taxpayer and their advisors through the exchange process. This includes reminding the taxpayer of the 45-day identification time period, the 180-day exchange time period, the rules of identification and guidance on the entire exchange process. The QI keeps the taxpayer's legal and tax advisors involved in communication regarding these important requirements. Best practice is for the taxpayer to deliver the written identification to the QI, so the QI can provide an extra set of skilled eyes to notice identification issues and can work closely with legal and tax advisors to help ensure property is properly identified.

Post-IRC Section 1031 Exchange

Infinity Exchange Services provides accounting of all exchange proceeds, including any cash boot remaining at the end of the exchange. The taxpayer will file an IRS Form 8824, Like-Kind Exchanges, with their Federal tax return. The professional QI maintains records regarding the entire exchange process including to whom and when property was identified in writing, copies of all settlement statements, all of the QI's §1031 exchange documentation, an accounting for exchange proceeds. These records are not only helpful to advisors in preparing tax forms, but in the event of an audit, the ability of the QI to produce these documents and correspondence with the taxpayer during the exchange can provide valuable substantiation, greatly helping the taxpayer to defend their §1031 exchange and preserve the ability to obtain tax deferral pursuant to Section 1031. Most importantly, **Infinity Exchange Services** serves as a valuable safety net, rounding out the taxpayer's team of professionals who help the taxpayer to be knowledgeable about—and in compliance with—the safe harbor rules, avoiding a technical error that could imperil tax-deferral treatment.



For a free consultation call

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1031 Guide



INFINITY
Exchange Services, LLC

Professional, Secure, Nationwide

Qualifying 1031 Property

Any property held for investment or used in a business qualifies for tax deferred treatment under Section 1031 of the tax code.

The benefits of a 1031 Exchange

Preservation of equity is the number 1 reason why investors choose to exchange rather than sell and pay the tax.

Example – Assume investor has owned a property for over 1 year worth \$1 million dollars. They have \$0 debt and have a tax basis of \$500,000.00. Assume a 25% combined tax rate. (Capital Gain, Depreciation Recapture, State Taxes)

	Exchange	Sale
Equity	\$1,000,000	\$1,000,000
Basis	\$500,000	\$500,000
Gain	\$500,000	\$500,000
25% Tax Due	\$0	\$125,000

The investor that performs a 1031 exchange gets to keep 100% of their equity and use it to purchase either more property or higher valued assets.

The Exchange Process

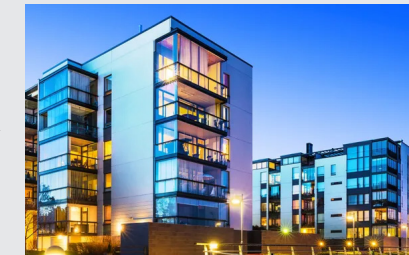
1. The exchanger enters into a Purchase and Sale Agreement with the Buyer to sell the relinquished property.
2. Infinity Exchange Services (IES) and the exchanger enter into an exchange agreement to retain IES as the qualified intermediary. The exchanger assigns their rights in the PSA to IES.
3. At Close of Escrow the proceeds are wired to IES and then IES directs the settlement officer to transfer the deed directly from the exchanger to the buyer.
4. The maximum amount of time the exchanger has to complete their exchange is 180 days or tax filing deadline, including extensions.
5. The first 45 days are known as the identification period. This is the time in which the exchanger must identify to IES which property or properties that they are going to try and purchase.
6. When the exchanger enters into a Purchase and Sale Agreement to acquire any of the identified replacement properties the exchanger then as signs their rights to IES.
7. At Close of Escrow IES wires exchange funds and directs the settlement officer to transfer the deed directly from seller of replacement property to the exchanger.
8. Once exchange funds have been used by the exchanger IES closes the exchange and remits documentation for tax reporting.

3 Simple Guidelines to have a Fully Tax Deferred Exchange

1. Purchase replacement property that is equal or greater in value to the relinquished property.
2. Replace the debt. The amount of debt the exchanger had on the relinquished property must be the same amount or greater on the replacement property.
3. Spend all of the equity – 100% of the exchange funds must be spent by the 180th day.



RELINQUISHED PROPERTY



REPLACEMENT PROPERTY

