1031 Exchange

A Plain-English Guide for Real Estate Owners by Certified Tax Experts Inc

The simple idea

A 1031 exchange lets you sell qualifying investment or business real estate and move the money into other qualifying real estate without paying all of the tax on the gain right away. The tax is usually postponed and carried into the new property - not permanently erased.

Think of it like trading up, not cashing out

Example: You sell a rental property for $500,000. Instead of taking the sale money home, a special exchange company holds the funds. You then use those funds to buy another investment property. If the rules are followed, some or all of the tax from the sale can be postponed.

1. SELL	2. IDENTIFY	3. BUY
Sell the investment or business real estate through a qualified intermediary.	Within 45 days after the sale, identify the replacement property in writing.	Complete the purchase generally within 180 days (or sooner if the tax-return deadline requires it).

What kind of property can qualify?

☐ Real estate held for investment, such as rental property, land, or many commercial properties.

☐ Real estate used in a business may also qualify.

☐ The old property and the new property do not have to look alike. For example, land can generally be exchanged for a rental building if both are qualifying real estate.

Usually does NOT qualify: your personal home, property held mainly for quick resale, and personal property such as cars, equipment, furniture, artwork, or investments like stocks.

The money cannot come to you first

For the common delayed exchange, the sale is normally set up with a qualified intermediary before closing. The intermediary holds the exchange proceeds and uses them toward the replacement property. If you receive or control the sale money first, the exchange can fail.

Important

Tell your tax adviser, real estate professional, closing agent, and qualified intermediary that you want a 1031 exchange BEFORE the property sale closes.

1031 Exchange: Rules Clients Should Know

The two deadlines

45 DAYS	You must identify the replacement property in writing no later than 45 days after you transfer the old property.
180 DAYS	You must receive the replacement property no later than 180 days after the transfer - or by the due date of the tax return for that year, including extensions, if that date comes first.

How many replacement properties can I name?

A common approach is to identify up to three possible replacement properties. Other IRS identification methods may allow more, but they come with value limits and special rules. Your qualified intermediary or tax adviser should help you document the identification correctly.

How do I postpone all of the gain?

A simple planning rule is to aim to buy replacement property worth at least as much as the property you sold and put all of the exchange proceeds back into qualifying property. Cash you keep, a drop in value, or certain debt changes can cause part of the gain to become taxable. The exact tax result depends on your numbers and closing statement.

What happens to the tax?

The postponed gain usually becomes part of the tax history of the replacement property. That is why a 1031 exchange is best described as a tax deferral. If the replacement property is later sold without another qualifying exchange, the postponed gain may become taxable at that time.

What if I keep exchanging and own the property when I die?

Here is a simple example:

Dad originally buys an investment property for $200,000. Over many years, he completes one or more properly structured 1031 exchanges. Each time, he postpones the tax instead of cashing out. Eventually, he owns replacement property worth $1,500,000, while his adjusted tax basis in that property is only $300,000.

If Dad sold the property during his lifetime for $1,500,000, the difference between the selling price and his adjusted basis could create a large taxable gain.

Instead, Dad keeps the property and dies while still owning it. Under the general inherited-property rule, his heirs receive a new tax basis based on the property's fair market value at his date of death. If the property is worth $1,500,000 at that time, the heirs' starting basis would generally be about $1,500,000.

If the heirs sell the property soon afterward for about $1,500,000, there may be little or no taxable gain because their selling price is close to their new inherited basis. If they keep the property and it later rises to $1,650,000 before they sell it, their taxable gain would generally be measured from the inherited basis - roughly $150,000 in this simple example, before considering selling costs and other adjustments.

Plain-English takeaway: A 1031 exchange can postpone tax during life. If the owner still owns the property at death, the inherited-basis rules may substantially reduce or eliminate the income-tax gain that had been postponed during the owner's lifetime.

Important: This is a simplified example. The actual basis can be affected by estate-tax valuation rules, depreciation, improvements, ownership structure, and other facts. The heirs should have the date-of-death value documented and should review the basis with their tax adviser before selling.

A few situations that need extra care

- ☐ You want to buy the new property before selling the old one (a reverse exchange).
- ☐ The old or new property is partly your home or vacation home.
- ☐ You are exchanging with a family member, related company, partnership, trust, or other related party.
- ☐ The ownership name or entity buying the new property will be different from the seller.
- ☐ You want to take cash out of the exchange or change the debt substantially.
- ☐ The property is outside the United States.

Bottom line

A successful 1031 exchange is mostly about planning before the sale, using the right intermediary, meeting the deadlines, and buying qualifying replacement real estate. Do not wait until closing day to start the conversation.

Client education only. This handout is a general overview, not legal, tax, investment, or real-estate advice for a specific transaction. Rules can be affected by facts, ownership structure, debt, closing costs, related parties, and other issues.

1031 Exchange Client Worksheet

Bring this worksheet to your tax adviser before the sale closes.

Client name ____

Phone / Email ____

1. Property You Plan to Sell

Property address ____

Type of property (rental, land, commercial, etc.) ______________________________

Approximate selling price ______________________________________

Approximate mortgage or debt payoff ______________________________

Expected closing date ______________________________________

How is the property currently used? ☐ Rental ☐ Business ☐ Investment land ☐ Personal use ☐ Other: _________________

Was this ever your main home or vacation home? ☐ Yes ☐ No

Is the buyer related to you or your business? ☐ Yes ☐ No ☐ Not sure

2. Your Replacement Property Plan

What are you hoping to buy?

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Target purchase price _______________________________________

How much cash do you expect to add, if any ________________________________

Will the new property be held for investment or business use? ☐ Yes ☐ No ☐ Not sure

3. Deadline Planner

Date old property is expected to close	___________________________
45-day identification deadline	___________________________
180-day exchange deadline	___________________________
Tax-return due date / extension date	___________________________

1031 Exchange Client Checklist

Before the sale closes

☐ Tell my tax adviser I am considering a 1031 exchange.

☐ Choose a qualified intermediary before closing.

☐ Tell the title company / closing agent this sale is part of a 1031 exchange.

☐ Do not have the exchange proceeds paid directly to me.

☐ Confirm who owns the property now and who is expected to own the replacement property.

☐ Gather my purchase documents, depreciation records, improvement costs, loan information, and estimated closing statement.

During the 45-day identification period

☐ Start looking for replacement property immediately - the 45 days goes by quickly.

☐ Give the written replacement-property identification to the proper party on time.

☐ Keep copies of the written identification and all exchange documents.

Possible replacement properties

#	Address / Property	Price	Status
1		$ ________________	☐ Looking ☐ Under contract
2		$ ________________	☐ Looking ☐ Under contract
3		$ ________________	☐ Looking ☐ Under contract

Questions I want to ask

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Documents to bring to your tax adviser

Latest tax return • prior depreciation schedule • original purchase closing statement • records of major improvements • expected sale closing statement • current loan payoff • exchange/QI documents • replacement-property purchase information

Federal sources used for this guide: Internal Revenue Service, Publication 544 (Sales and Other Dispositions of Assets); Instructions for Form 8824; IRS Like-Kind Exchanges - Real Estate Tax Tips. Guidance checked August 2026; Publication 551 (Basis of Assets).