7 Necessary Steps of a 1031 Tax Deferred Exchange

1. Purchase contract verbiage…"Buyer hereby acknowledges it is the intent of the Seller to effect an IRC Section 1031 tax deferred exchange which will not delay the closing or cause additional expense to the Buyer. Or your REALTOR® has a form that can be downloaded from the California Association of REALTORS® that states the "Seller's intent to exchange supplement and add to the contract."

2. Your REALTOR® will open escrow and inform the escrow officer that there is an exchange and then will identify the accommodator that he or she is using at that point.

3. Your REALTOR® will call the accommodator and inform them that escrow has been opened and will supply the following information: the escrow company, escrow officer, escrow number and phone number. Additionally, your REALTOR® will also identify the property address, your name (the client) and the proposed close of escrow date.

4. The accommodator will then contact escrow and request the escrow instructions and preliminary title report. These items are necessary to open the exchange. When these items are received, the exchange agreement is drawn up and the exchange is officially opened. Please note: the exchange cannot be opened until the accommodator receives these items. Also, the exchange must be opened before the escrow closes or it is too late.

5. If your REALTOR® is representing you as the client with your replacement property, your REALTOR® will need to follow steps 1-3 again for the replacement property. Or, if there are multiple properties being sold or bought, your REALTOR® will need to follow steps 1-3 for each property. Remember, communication is very important.

6. TIME FRAMES START AT THE CLOSE OF ESCROW. The first 45 days are designated to the identification of what properties you want to buy. A total of 180 days to close escrow on the purchase of the replacement property. If you (the client) are selling multiple properties in the same exchange, the first property to close escrow will start the clock.

7. Please note the following: The economic factors that are important to know regarding finding the right value of the replacement property. They are as follows:

   Sales price of sale property, minus the cost of selling needs to be matched.

Example:	Sales price:	$525,000
	Cost of selling:	$ 40,000
	Net sales price	$485,000

   To have a successful tax-deferred exchange, you need to match the net sales price equal or greater.

If there was loan debt on the sale property, it is important to also replace the payoff amount of that loan in a new loan for the new property.

Example:	Net sales price:	$485,000
	Loan paid off:	$185,000
	Net proceeds	$300,000

The IRS expects you (the client) to buy a property or properties equal or greater to the NET SALES PRICE ($485,000). Using the NET PROCEEDS ($300,000) and replace the LOAN DEBT ($185,000) or greater in a new loan on the new property or properties.

If you have any interest or would like to speak with us directly, please do not hesitate to contact us at any time. We thank you for your time and we look forward to hearing from you!

Sincerely,

PreviewOC Real Estate
Direct: 949.400.1072