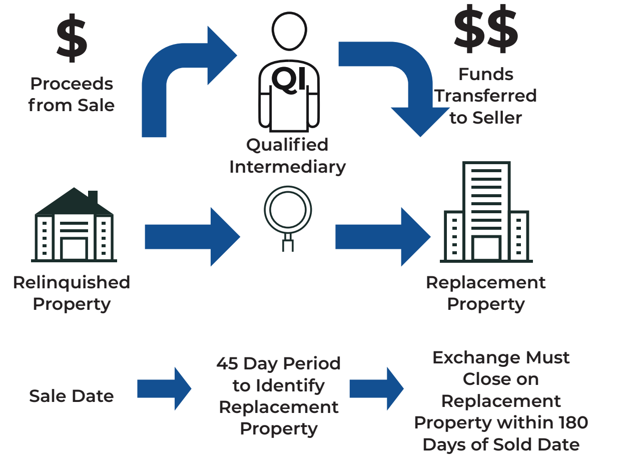
1031 Capital Solutions
Tax-efficient strategies for affluent investors

1031 EXCHANGE PROCESS

Section 1031 of the Internal Revenue Code can be an important wealth-preserving tool for real estate investors



Internal Revenue Code §1031 allows investors to defer the payment of capital gains taxes when selling investment property and exchanging into other qualified investment property.

Strict adherence to the legal requirements of §1031 is required for a successful exchange. Investors should be aware of five basic requirements when entering into an exchange, and should seek the advice of a tax accountant or attorney to ensure proper adherence to the tax code and IRS regulations:

1. Property Qualification

Both your relinquished property and your replacement property must be held for investment or for productive use in a trade or business. Personal residences, vacation homes, development inventory and flipped properties do not qualify for a §1031 exchange. Only U.S. property can replace U.S. property.

2. Exchange Accommodator (Qualified Intermediary)

Your escrow agent must transfer the proceeds of your sale directly to a Qualified Intermediary ("QI"). Before you close your sale, you must establish an account with a QI, who will coordinate with your escrow agent. We recommend using a member of the Federation of Exchange Accommodators.

3. Timeline

You must <u>identify</u> your replacement property within **45 days** after closing your sale, by submitting an "ID Letter" form to your QI. You must <u>acquire</u> your replacement property within **180 days**. There are no personal exceptions to these rules. The federal government may extend deadlines due to regional disasters.

4. Identification Limits

If you complete your §1031 replacement acquisition within 45 days, no ID Letter is required. Otherwise, the IRS limits the number or value of replacement properties you may identify as follows:

Three-property rule - identify up to three properties of any value **- OR -**

200% rule - identify four or more properties; their total value cannot exceed 200% of the property sold **- OR -**

95% rule - identify any number, of any price, and acquire at least 95% of the total value (this rule is rarely used)

5. Reinvestment Requirements

To defer 100% of the capital gains tax liability, two requirements must be met:

Reinvest all the cash - all the cash that was generated from the sale of the relinquished property must be reinvested into the replacement property or properties

Purchase equal or greater value - the replacement property (or properties) must be equal or greater in value to the relinquished property

Consult with your tax or legal professional before investing.