



1031 EXCHANGE STRATEGY GUIDE

*How to defer capital gains and depreciation recapture taxes
while scaling your real estate portfolio*



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TaxMD™ AI

 1-800-522-6091

 info@taxmd.com

 www.taxmd.com



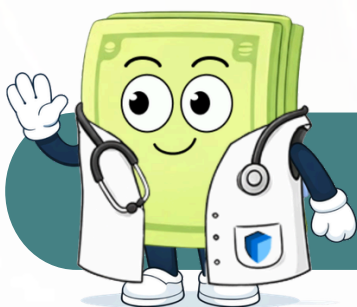
Executive Summary

A Section 1031 Exchange, commonly known as a Like-Kind Exchange, allows real estate investors to defer federal capital gains and depreciation recapture taxes when selling investment or business real property.

Instead of recognizing taxable gain at sale, the investor reinvests the proceeds into replacement real property that qualifies as like-kind. When structured correctly and executed within strict IRS timelines, the transaction defers tax liability and preserves capital for reinvestment.

The benefit is deferral, not elimination. The deferred gain carries forward into the replacement property through a reduced adjusted basis. However, by preserving capital and compounding appreciation over time, a properly executed 1031 strategy can significantly enhance long-term portfolio growth.

This guide explains qualification requirements, timelines, compliance risks, and strategic considerations for implementing a 1031 Exchange.



I'm Doc, here to guide you along the way and show you how TaxMD™ can help put these strategies into action.

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Table of Contents

	Who This Guide Is For	Page 4
1	What Is a 1031 Exchange	Page 5
2	Core Requirements	Page 6
3	How It Applies to You	Page 7
4	Example Scenario	Page 8
5	Tax Impact Considerations	Page 9
6	Estimated Financial Impact	Page 10
7	Key Risks and Compliance Issues	Page 11
8	Assumptions	Page 12
9	Strategic Planning Considerations	Page 13
10	Next Step Checklist	Page 14
11	How TaxMD™ Helps You Plan a 1031 Exchange	Page 15

Who This Guide Is For

This guide is designed for:

- Real estate investors selling rental properties
- Business owners selling commercial property
- Investors repositioning assets within a portfolio
- High-net-worth individuals seeking to defer large capital gains
- Owners transitioning from active management to passive holdings

What Is a 1031 Exchange

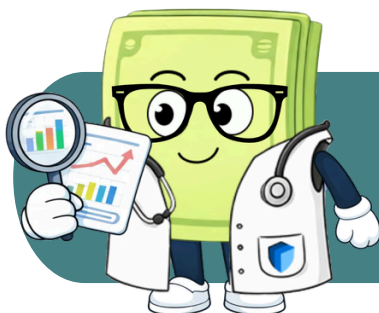
A Section 1031 Exchange allows the deferral of:

- Federal capital gains tax
- Depreciation recapture tax

When:

- Investment or business-use real property is exchanged for other like-kind real property
- The transaction complies with IRS rules

Since 2018, 1031 exchanges apply only to real property, not personal property.



Using your real property numbers, TaxMD™ models a 1031 Exchange to show your potential tax savings and cash flow impact.

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Core Requirements

To qualify for tax deferral, the exchange must meet strict IRS requirements.

1. Property Must Be Held for Investment or Business Use

Eligible property includes:

- Rental properties
- Commercial buildings
- Multifamily real estate
- Industrial property
- Land held for investment

Personal residences do not qualify.

2. Like-Kind Requirement

The properties must be like-kind, meaning real estate exchanged for real estate. The term is broad:

- Apartment building for retail center
- Raw land for rental property
- Single-family rental for multifamily

The nature of the property must be investment or business-related.

Core Requirements

3. Qualified Intermediary Required

You cannot take constructive receipt of the sale proceeds.

Funds must be held by a Qualified Intermediary (QI) who facilitates:

- Transfer of relinquished property
- Identification of replacement property
- Acquisition of replacement property

If you receive the funds directly, the exchange fails.

4. Strict Timing Rules

- 45 days from closing to identify replacement property
- 180 days from closing to complete acquisition

Missing either deadline disqualifies the exchange.

How It Applies to You

If you sell a rental property and reinvest the proceeds into another qualifying property through a properly structured exchange:

- Federal capital gains tax may be deferred
- Depreciation recapture tax may be deferred
- Full equity can be reinvested

To achieve full deferral:

- All net proceeds must be reinvested
- Replacement property must be equal or greater value
- Equal or greater debt must be assumed or replaced

When structured correctly, this allows you to scale into larger or better-performing assets without immediate tax erosion.

Example Scenario

An investor sells a rental property for \$1,000,000 with a \$400,000 gain.

Without a 1031 exchange:

- Capital gains tax is triggered
- Depreciation recapture is triggered
- Net reinvestment capital is reduced

With a properly executed 1031 exchange:

- Taxes are deferred
- Full \$1,000,000 (less closing costs) can be reinvested
- Gain carries forward into replacement property basis

This preserves capital for long-term growth and potential appreciation.



Login to TaxMD™ to view your personalized tax deferral and reinvestment numbers.

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Tax Impact Considerations

A 1031 Exchange defers:

- Federal capital gains tax
- Federal depreciation recapture

However:

- State-level rules may differ
- Deferred gain reduces the basis of the replacement property
- Future sale without exchange triggers accumulated gain

Long-term planning is essential.

Estimated Financial Impact

Savings depend on:

- Amount of gain
- Amount of accumulated depreciation
- Federal and state tax rates
- Holding period

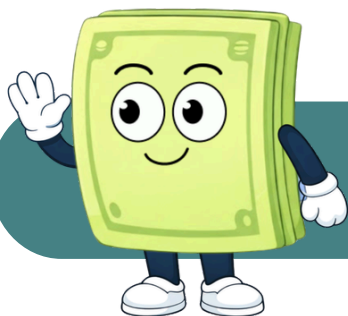
Example:

\$400,000 gain

Combined 25% effective capital gains and recapture rate

Potential immediate tax deferral \approx \$100,000

Actual savings depend on facts and circumstances.



See this example applied to your real numbers and facts in your TaxMD™ workspace.

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Key Risks and Compliance Issues

Timing Risk

Missing 45-day or 180-day deadlines disqualifies the exchange.

Constructive Receipt Risk

Receiving proceeds directly voids eligibility.

Like-Kind Misclassification

Property must qualify as investment or business use.

Market Risk

Limited replacement inventory can pressure investors into suboptimal acquisitions.

Liquidity Risk

Proceeds must be reinvested, limiting cash flexibility.

Documentation Risk

Incomplete or inaccurate exchange documentation may trigger IRS scrutiny.

Assumptions

- Property is held for investment or business purposes
- Qualified Intermediary is properly engaged
- All identification and closing deadlines are met
- Replacement property meets like-kind criteria



TaxMD™ lets you evaluate these assumptions with your property, numbers, rules, and deadlines to see if this strategy is right for your goals.

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Strategic Planning Considerations

Portfolio Growth Strategy

Use exchanges to:

- Consolidate smaller properties into larger assets
- Transition to higher-performing markets
- Shift from active to passive management

Multi-Property Identification

IRS rules allow identification of:

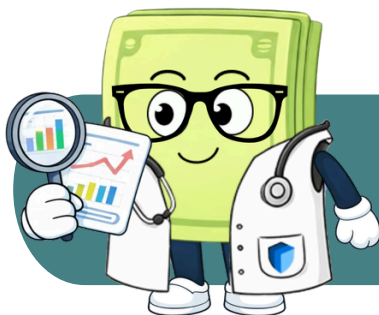
- Up to three properties, regardless of value, or
- More under the 200% rule

This provides diversification flexibility.

Long-Term Deferral Strategy

Repeated exchanges can defer taxes for decades.

In estate planning scenarios, heirs may receive a step-up in basis, potentially eliminating deferred gains.



Login to TaxMD™ to evaluate, review, and coordinate all of these things using your real numbers, so every decision is based on your actual financial picture.

Next Step Checklist

Immediate (Next 7 Days)

- Consult with a Qualified Intermediary
- Review current property gain projections
- Begin researching replacement properties

Implementation (Days 8–30)

- Execute QI agreement before closing
- Identify replacement property within 45 days
- Secure financing
- Complete acquisition within 180 days

Ongoing

- Retain exchange agreements
- Maintain identification letters
- Preserve closing statements
- Coordinate with CPA for Form 8824 reporting



Need a detailed tracker? Login to your TMD™ workspace to track your progress, and see the tax savings from each strategy.

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Tax Engine



#AVATAR 2
Business Owner



Entity Structuring



#AVATAR 1
Real State Investor



#AVATAR 5
Retiree



#AVATAR 6
W-2 Employee



#AVATAR 3
Side Hustler



Event Driven Planning



How TaxMD™ Helps You Plan a 1031 Exchange

TaxMD™ allows you to:

- Estimate capital gains and depreciation recapture
- Model exchange versus taxable sale
- Compare reinvestment scenarios
- Analyze long-term tax deferral impact
- Integrate 1031 strategy with estate and portfolio planning


A 1031 Exchange is not just a transaction tool. It is a capital preservation and growth strategy when aligned with long-term real estate objectives.



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