



## 1031 Exchange – Key Terms

**Section 1031 of the IRS Code** - is the authorizing section of the IRS tax code that allows an investment property owner to defer capital gains and depreciation recapture taxes on a property sold.

**1031 Exchange** - Internal Revenue Code Section 1031 states that no gain or loss is recognized where property held for investment or productive use in a trade or business is exchanged solely for property of "like-kind" which is to be held for investment or productive use in a trade of business.

**Deferred Exchange** - refers to an exchange of one property for another of "like kind". The capital gain tax owed on the sale of the property or item is deferred until sale of the exchange property.

**Qualified Intermediary** - is the disinterested third party that holds the funds from the relinquished property and releases the funds for the replacement property and ensures that all IRS requirements are met.

**Like-Kind Property** - Property that is exchangeable with another property. Like-kind refers to the nature or general character of the property and not to its grade or quality.

**Relinquished Property** - refers to the property that is to be given up in the 1031 exchange.

**Replacement Property** - refers to the like-kind property to be received in the 1031 exchange.

**Identification Period** - is the 45-day period during which you must identify the replacement property, or properties, that begins on the day escrow is closed on the relinquished property.

**Exchange Period** - The period during which you must acquire (i.e., close escrow) the replacement property, beginning on the day on which you close escrow on your relinquished property and ending at midnight on the 180th day after that.

**Net Proceeds** - The net dollar amount received by the Seller as a result of the sale of the property to be relinquished. This amount, which must be reinvested in the replacement property, is the selling price, less any outstanding loan balances, less any normal and customary selling costs.

**In-Cash** - refers to the point in time when an investor has closed escrow on the relinquished property and is in the 45-day identification period of the 1031 exchange process. The money from the sale of the relinquished property is with a Qualified Intermediary, waiting to be reinvested into the replacement property.

**Direct Deeding** - is a transaction where a relinquished property or a replacement property is deeded directly to a buyer (not to a qualified intermediary first).

**Disqualified Person** - refers to a seller's relatives (determined under income tax regulations) or agents (including your attorney and your accountant).

**Boot** - is cash or other non like-kind property given by one party to another party in a 1031 Exchange that is taxable. Boot received may generally be offset by boot given or paid.

**Preservation of Capital** - When the cost value of an investment is maintained or increased.