Does it make sense to do a 1031 exchange?

Below is a simple guide that can help determine if your situation qualifies for a 1031 exchange and if a 1031 exchange seems like the best option for your upcoming real estate transaction.

Do you, or your entity, pay US taxes? If yes, then you are eligible for a 1031 exchange.

Is the property you are selling “real property” that has been held for business or investment use? If yes, then the property should qualify for a 1031 exchange.

Are you planning on reinvesting the full sale proceeds from the sale of your property into another property that will be held for business or investment use? If yes, then you qualify for a 1031 exchange. However, if the answer is no, perhaps you plan to reinvest your proceeds into a second home for yourself, then the transaction would not qualify for a 1031 exchange.

Do you plan on reinvesting all the proceeds from the sale into a new business or an investment use property? If yes, or if you plan to reinvest the majority, then a 1031 exchange would be a good fit. If you need or want to keep most of the proceeds rather than reinvest, then a 1031 exchange wouldn’t provide a ton of value.

Have you already sold your property and received the proceeds? If yes, then you no longer qualify for a 1031 exchange because you already received the gain which is now taxable.

From the close of the sale on your property, will you be able to identify a potential replacement property within 45 days? If you think you can achieve this, then a 1031 exchange could be a great option for you!

Is it feasible to sell your property and acquire your new property within a 180-day period? If yes, then a 1031 exchange should be considered.

Your answers to the basic questions above should give you a good idea whether a 1031 exchange is a good fit for your situation or not. As always, consult your tax advisors to determine the right strategy.