



Frequently Asked Questions about 1031 Like-Kind Exchanges

What is a tax-deferred exchange?

A Section 1031 Exchange (Like-Kind Exchange, or LKE) allows you to defer recognizing the taxable gain when you sell an asset and purchase a “like-kind” asset. LKEs, which have been an established part of the Internal Revenue Code since 1921, can be used for real estate or other business assets (like trucks, cranes, forklifts, etc.)

Is this tax free?

No. It’s not tax free. However, if you develop a strong, long-range asset management plan and continually replace the assets purchased through an LKE, you can defer these taxes indefinitely.

Why would I want to exchange vs. sell and simply pay taxes?

By deferring your taxes, you retain your cash – which can be up to 40% of the sale price – which can then be invested in new assets (real estate, construction equipment, etc.)

What kinds of exchanges are available?

- **Simultaneous Exchange:** Two companies exchange like-kind assets at the same time.
- **Delayed Exchange:** This is the most common type of exchange. There’s a time gap between when you sell and when you replace the asset. You have 180 days to finish the exchange or you pay the tax.
- **Build-to-Suit (Improvement or Construction) Exchange:** In this scenario you’re allowed to build on or make improvements to the replacement property, using sales proceeds from the original asset.
- **Reverse Exchange:** The replacement asset is acquired before you actually sell the original asset. You may continue using the original asset until the exchange is finalized.
- **Personal Property Exchange:** You can take an asset, like a crane or front-end loader, and exchange it for other assets that are like-kind or like-class. It’s important to note that “like-kind” doesn’t mean the assets have to be the same – a front-end loader is like-kind to a bulldozer.

What do I need to do in order to execute an exchange?

You need to work through a Qualified Intermediary (QI). Accruit is the leading QI for tangible business assets in the country. Under a written exchange agreement with the exchanger, the QI acquires the relinquished property or asset and transfers it to a buyer. The QI holds the cash, as required by the Internal Revenue Code. Finally, the QI acquires the replacement property or asset and transfers it to the taxpayer, completing the exchange.

Why do I need a Qualified Intermediary? Can’t I just keep my own cash and do the exchange?

No. IRC regulations are clear. The taxpayer must not receive or have constructive receipt of the proceeds in any way. It will disqualify the exchange.

Does the Qualified Intermediary actually take title to property or assets?

Not in most situations. Property can be deeded or licensed between the parties as you would in a normal sales transaction.

What are the time restrictions on an exchange?

A taxpayer has 45 days after the date the property or asset is transferred to a buyer to purchase or identify replacement property. If the taxpayer makes this identification, the timeline is extended by 135 days or until the tax filing for that year. This brings the total timeline to 180 days, or six months.

Is there a limit to the number of exchanges that can be done?

No. Generally you can exchange as many properties or assets as you want, but there are strict deadlines to follow in order to maximize your exchanges (you have a full 180 days to complete the exchange). Section 1031 Exchanges can continue repetitively for as long as the taxpayer continues to buy and sell “like kind” assets. It’s this rolling of exchanges that maximizes cash flow benefit and creates an indefinite deferral.

Why would I want to hire Accruit as my Qualified Intermediary?

First, Accruit is the Like-Kind Exchange industry leader, facilitating all kinds of exchanges allowed for both real estate and tangible assets and providing the only comprehensive, fully integrated solution in the nation. With Accruit you can count on transactions that are safe and secure. Our Web-hosted service lets you easily track your transactions with an Internet browser. You get world-class service with a Denver-based client service manager who will monitor your account and be available to answer questions. Best of all, it all happens with a low administrative fee. You give us your information, and our software and 1031 experts will handle your transactions through a patented end-to-end process (the only one of its kind in the industry). We even provide asset-level reporting that’s audit-ready and available anytime.

How do I learn more?

Easy. Just call toll-free 866.397.1031, e-mail info@accruit.com or visit us online at Accruit.com.