



## A Tax Haven For Preserving Real Estate Wealth

By Paul Lajoie

In the summer of 1990, the I.R.S. came out with the long awaited rules on Deferred Exchanges. Section 1.1031 of the Internal Revenue Service Code laid out the procedure for turning a sale and purchase type transaction into an exchange.

**The 1031 exchange allows property owners to move up to bigger buildings increasing potential income and wealth without suffering the current burden of capital gains.**

The 1031 tax deferred treatment of capital gains is one of the best real estate investor vehicles for preserving and building real estate wealth.

These new rules allow owners of certain types of like kind Real Property to sell their property and buy other like kind property without paying the Capital Gains Tax. It makes possible a transfer of the financial gain that is realized from the sale of a property into another property without federal capital gains tax at the time of the sale. The like kind provision for Real Property includes land, rental and business property, any of which can be exchanged for the other. The like kind provision for Personal Property is much more restrictive. This type of property must be in productive use in a business (depreciable property), and can be only exchanged for the same type of

property.

There are two qualifications beyond the property to carry an exchange through. First, an opening escrow must be established for the entire proceeds of the selling property to ensure tax deferral and second, you have only 45 days from closing to identify the replacement property and 180 days total to complete the closing of the replacement property.

There are strict guidelines to be followed in the process of a 1031 exchange and this should be handled by a qualified intermediary.

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At Magnusson Balfour we pride ourselves in finding the right exchange properties to preserve your real estate wealth.

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statistics regarding the number of start-ups that fail in the first three years is frightening. You reduce the risk of starting your new enterprise by buying a 'going concern'.

If you are considering selling your business, let us value it to ensure you receive the extra value (called goodwill) that you have worked to create.

If you are interested in finding a solid business, be sure to check in with us to view our listing portfolio. Stay tuned for our *Goodwill vs. Blue Sky* discussion in our next issue.

### Featured Property



#### 847 Gray Road, Gorham, Maine

**This beautifully restored 6,500+sf Federal style building with new (reproduction) attached carriage house sits on 1.24+ acres. With ample parking and great signage, this is the perfect commercial space with residence! \$489,000. Contact Elisabeth Magnusson.**