Accruit

Maximizing Your Business or Investment Property

Transforming Tax Liability into Cash Flow

As many real estate investors are keenly aware, the tax consequences of selling commercial real estate can significantly impact your ability to acquire another property. In some cases, the tax owed from a sale can leave a real estate owner with little or no cash to apply toward the purchase of a replacement. Complicating matters further, banks continue to tighten their lending policies, making it more important than ever for potential buyers to maximize their cash resources.

A 1031 Exchange is one of the most popular tax strategies available when selling and buying commercial real estate. By structuring the sale and purchase of property as an exchange, the owner can potentially reduce the recognized tax gain to zero. By reducing the taxes owed to the government, more cash is available for the purchase of new property.

What Kinds of Property Are Eligible for 1031 Exchange?

These examples illustrate some of the commercial real estate types eligible for tax deferral using a 1031 Exchange.

- Apartment buildings
- Certain mineral rights
- Farms
- Garages
- Golf courses
- Hotels/motels
- Industrial property
- Medical centers
- Multi-family rental properties
- Office buildings
- Oil and gas lease holds
- Retail stores
- Shopping centers
- Vacant land held for investment
- Warehouses
- Certain leases of real property
- ...and more

How 1031 Like-Kind Exchanges Work

Section 1031 of the tax code allows property owners to defer the taxes associated with the sale of their commercial real estate. All types of taxpayers can qualify for the tax benefits – individuals, partnerships, S corporations, C corporations and trusts (however, the same taxpayer that sells the relinquished property must purchase the replacement property). As long as the requirements for a tax-deferred exchange are satisfied and the sale proceeds are reinvested in like-kind replacement property, the tax gain can be deferred. In some cases, the tax gain can be deferred indefinitely (exchanges of non-depreciable land, step-up in basis upon death, etc.).

To realize the benefits of a 1031 exchange, a property owner generally must employ the services of a Qualified Intermediary (QI). Accruit is one of the nation's leading QIs for all types of business or investment property, including commercial real estate. Accruit will work in concert with you and/or your tax advisor to properly structure your tax-deferred exchange.

Reverse Exchanges

In the event that you must acquire the replacement property prior to selling your current property, Accruit can help you structure a "reverse exchange." Also, if you intend to make improvements to the replacement property and want to include the cost of the improvements in the exchange, Accruit can work with you to structure the transaction as an "improvement exchange."

Conducting the Exchange

In order for the tax gain to be deferred, certain key requirements must be satisfied:

Properties Must Be Exchanged: By itself, a sale followed by a purchase does not qualify as a 1031 Exchange. Instead, the transaction must be treated as an exchange for tax purposes. To convert a sale followed by a purchase into an exchange, a property owner will employ the services of a QI. It's very important for Accruit to be contacted prior to the closing of the sale and/or purchase transaction.

Properties Must Be "Like-Kind": One of the advantages to exchanging commercial property is that almost all real property is considered to be of "like-kind" to all other real property. However, property located in the United States is not like-kind to property located outside of the United States.

Held For Business or Investment Purposes: Both the sold and purchased properties must be held for business or investment purposes. A sale of business property is not required to be replaced with other business property; it can be replaced with investment property or vice versa.

Reinvest the Equity & Exchange Equal or Up in Value: To potentially defer all of the tax gain, a property owner must first reinvest all of the equity in the relinquished property into the replacement property. The owner is not permitted to take back cash at closing (including the original down payment) without recognizing at least some of the realized tax gain. Second, the purchase price of the property acquired must equal or exceed the sale price of the relinquished property.

A Proven Process

Accruit's total 1031 Like-Kind Exchange solution integrates secure, reliable QI services with the only patented LKE process in the country (U.S. Patent No. 7,379,910 and other patents pending). The Accruit Exchange Manager™ streamlines the administrative, accounting and tax reporting processes associated with deferred exchanges, providing clients with an efficient alternative to an otherwise cumbersome paper-based process and helping them remain focused on what they're best at – running their businesses. Accruit has helped clients in over 20 industries transform billions of dollars in tax liability into working cash flow and our client retention rate of 98% testifies to the end-to-end value customers find in their 1031 programs.

Discover How You Can Defer Taxes with Accruit

Whether you are selling one commercial property a year or several each month, Accruit has a comprehensive 1031 Like-Kind Exchange solution that can help you drive increased cash flow to meet your business challenges.

Accruit's Comprehensive Exchange Management Solution

Defers taxes on gain realized upon selling commercial property – in some cases, the tax can be deferred indefinitely

Delivers a safe, proven process that allows clients to take advantage of certain safe harbors provided in the tax law

Simplifies the exchange process through next-generation software accessible through a secure, convenient Web-based interface

Takes care of the details – including monitoring exchange timelines, automating notifications and integrating cash management

Provides personal service via a dedicated, knowledgeable Accruit representative

Case Study: Gold Hill Partners, LLC

Gold Hill Investment Partners (GHP) purchased an office building in 1998 for $2,500,000 and has been taking approximately $50,000 of depreciation deductions each year. In February 2008 GHP sold the facility for $3,500,000. At the time of sale, their tax basis in the property was $2,000,000 ($2,500,000 original purchase price - $500,000 depreciation taken). GHP then purchased another office building in July 2008 for $4,250,000.

2008 Tax Consequences (Without 1031 Exchange)

Tax gain recognized upon sale of the office building = $1,500,000
$3,500,000 sale price - $2,000,000 adjusted tax basis = $1,500,000

Calculation of Tax:

Federal Long-term Capital Gains Tax
$1,000,000 appreciation X 15% = $150,000

Tax Attributable to Unrecaptured Section 1250 Gain
$500,000 depreciation X 25% = $125,000

State/Local Tax (assumes 5% state tax rate)
$1,500,000 tax gain X 5% = $75,000

Total Tax = $350,000

2008 Tax Consequences (With a 1031 Exchange)

Tax gain recognized upon sale of the office building = $0

Benefit of the 1031 Exchange

When Gold Hill structured the sale of the old office building and the purchase of the new office building as a 1031 exchange, its benefit is the deferral of $1,500,000 in tax gain, resulting in ***total tax savings of $350,000 in the year of sale.***

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The Total 1031 Like-Kind Exchange Solution

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