The Secrets of Performing Tax-Deferred Exchange

A tax-differed exchange, also referred to as a non-taxable sale, is simply a method enabling property owners to trade an investment (non-primary residence) property for another investment property (or properties) without paying capital gain taxes on the transaction. Thus, tax-deferred exchange is a system that helps you avoid the tax bill on the sale you have performed.

For example, suppose you own a real estate investing property that has gone up in value. Now, when you sell that property under the tax-deferred exchange, and with the gain or profit from the sale, you buy a new property, you do not require paying taxes on the sale immediately at the time of closing. You can avoid the tax bill till a later date. On the other hand, if you are unable to find an appropriate property to exchange, you will not be able to avoid the tax bill. Still, you owe the taxes only at the time when you finally sell the new piece of property.

Identification Phase Of The Exchange

Once you go ahead to do a tax-deferred exchange, you must not forget to identify the real estate investing property. For this, you should sign a written document and deliver the same to the party assisting you with the exchange. Make sure that you have done this on or before 45-days from the day you sold the original rental property. Also, remember that you can identify a maximum of three replacement properties without any regard to fair market value. However, in case the total value of replacement properties is less than the double value of the original property, you can go ahead and identify even more than three such properties. It is strongly recommended not to identify more properties than you are allowed because if you do so, you will be treated as if you have not identified any property, and consequently you will not be able to avoid taxes. So, act smart and be very careful.

The Time Limit

When you perform a tax-deferred exchange, always remember that there is a certain time limit to perform the same. Some important deadlines are listed below. These deadlines are determined by the earliest date a property is transferred. For multiple property transfers, the time limit for the identification phase of the exchange is 45 days. On the other hand, if you are successfully through with the identification of property, you get a time limit of 180 days to complete the exchange. If you exceed the time limit of 180 days or the property is received after the due date of your return for the year you made the transfer, the real estate investing property will not be treated as similar property.

Boot

Any money or any type of property that is of unlike kind, such as a car received as part of down payment, is considered as a boot. Always remember that, such money or properties are taxable. In such a case, it does not really matter if you have performed the tax-differed exchange properly or not. Therefore, in order to avoid such boots, it is always prudent to take the services of an exchange company or an attorney to examine these real estate investing transactions closely.

Overall, if you consider the above few aspects while performing a tax-deferred exchange in real estate investing business, you can do wonders in maximizing your wealth.

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About the Author

James Klobasa, once broke with no job and $20,000 in debt made a choice that changed his life forever. That choice was investing in Real Estate. You too, can make that choice. Learn and be kept up to date with the latest information at http://www.Real-RealEstateInvesting.com