



Wealth Creation and Real Estate

1031 Tax Free Exchange

Several years ago when I decided to become wealthy, I sat down to figure out how I would accomplish this goal. I wanted to be extremely wealthy. I never believed in get rich quick schemes, so I knew I had to do something strategic that would create the wealth I desired. I always knew real estate was the key. I just didn't know exactly how to unlock its wealth building potential.

I decided to purchase several investment properties. These investments eventually helped me create a generous level of wealth, financial independence and cash flow, but I wanted to go to the next level. How would I do that? I did not want to refinance. Refinancing would devour my equity and raise my monthly payment on the property, which would lower or possibly eliminate all of my cash flow. Not only that, it would increase my risk on the property that I refinanced. I considered selling properties, but I did not want to pay the hefty penalty for the sale. Selling property would cause a huge tax burden on me. What was I to do? How could I avoid paying the tax?

The Law of Tax-Free Exchange

Tax evasion is illegal. Tax avoidance, however, is legal. Tax avoidance is a legal way to defer or eliminate taxes. I solved my problem by a tax law that allows deferring all taxes called a 1031 Tax Free Exchange. How it works is very simple.

The IRS will allow you to sell a property and exchange that property for a 'like kind property' without paying tax. To 'exchange for a like kind' means properties involved in the transaction are used for the same purpose. Let's say you have a investment property that you want to sell, a duplex, and you've identified a property that you want to buy, an eight-unit apartment complex. You can sell the duplex, take the profits from the sale, better known as capital gains, and buy the eight-unit apartment. As long as the property is of like kind, investment property in exchange for investment property, you can avoid paying the taxes. Selling the duplex to purchase your dream home is not an exchange of like kind. These are properties used for two totally different purposes.

The law basically allows you to transfer the equity of one property to a different property. There are several reasons why you may choose to do this. Perhaps you want to invest in a larger property like the above example. This was a major reason for me. Maybe you want to invest in a different area of town or the new property is appreciating faster or has more cash flow. Whatever the reason, a 1031 Tax Free Exchange can be a very valuable tool.

Rules and Regulations

As with all tax laws, rules and regulations govern the operation of the 1031 Tax Free Exchange. For example, one of the regulations states that you must identify a property within 45 days and close on the property within 180 days. You can also identify more than one property. The IRS is very strict on following the rules and regulations when performing a 1031 Tax Free Exchange. If you violate the laws, you can expect big trouble. My purpose is not to make you a 1031 expert, so always consult a professional. Attorneys, CPAs, and real estate brokers can be a huge help.

As you are putting together your goals, consider the 1031 Tax Free Exchange. It has helped me build great wealth through real estate. To learn more about running a profitable real estate investment business, attend my upcoming seminar, Visit lutherragsdale.com for more information and to register online. You may also contact me by email at Luther@PlatinumRealEstate.com.