



# WHAT IS A 1031 EXCHANGE?

A 1031 exchange, or like-kind exchange (LKE), allows you to defer various forms of taxes - including capital gains and depreciation recapture - when you sell real estate held for investment purposes and purchase another asset that is deemed like-kind.

Here's how it works:

**1**

## ENGAGE A QUALIFIED INTERMEDIARY

A qualified intermediary or QI (see below) will structure the exchange, prepare related documentation, and hold proceeds from the sale of relinquished property.



**2**

## ASSIGN RIGHTS TO SELL RELINQUISHED PROPERTY

After negotiating a price and executing a sales contract with the buyer of the relinquished property (the property you wish to sell), you assign your rights to sell the relinquished property to the QI.



**3**

## SELL RELINQUISHED PROPERTY

The sale proceeds go to the QI who holds the funds in a special type of account required by the Treasury regulations. You have 45 days to identify up to three properties to replace the one you just sold.



**4**

## ASSIGN RIGHTS TO BUY REPLACEMENT PROPERTY

After negotiating a price and executing a purchase contract with the seller of the replacement property (the property you wish to buy), you assign your rights to buy the replacement property to the QI.



5

### BUY REPLACEMENT PROPERTY

Upon your signed direction to the QI, your exchange funds will be paid directly to the seller or to the closing agent. You must close no later than 180 days after the sale of your relinquished property.



6

### EXCHANGE IS COMPLETE

Congratulations! The taxes on gains are deferred. You don't owe anything to Uncle Sam, and the IRS is happy because you followed the process defined by the Internal Revenue Code and Treasury regulations.



## WHAT IS A QUALIFIED INTERMEDIARY?

The 1031 exchange regulations include safe harbors for the taxpayer, one of which is the use of a qualified intermediary (QI) whose role is to facilitate the exchange according to Internal Revenue Code Section 1031 and the Treasury regulations.

In simplified terms, via a written exchange agreement with the taxpayer and the assignment of contract rights, the QI acquires the relinquished property and transfers it to the buyer and acquires the replacement property and transfers it to the taxpayer.

## WHAT CAN YOU EXCHANGE?

1031 exchanges apply only to real estate assets. Taxpayers cannot exchange personal property assets. Real property that can be exchanged includes:

- Single or multi-family rental properties
- Office buildings
- Farm and ranch land
- Vacant land held for investment
- Hotels and motels
- Mineral, oil and gas rights
- And many more.

Accruit, LLC is the nation's leading provider of qualified intermediary and 1031 like-kind exchange program solutions. We facilitate all types of forward, reverse and improvement exchange transactions nationwide.

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