1031 EXCHANGE QUICK GUIDE

A Simple Overview for Real Estate Investors

A 1031 exchange allows a real estate investor to sell one investment property and reinvest the proceeds into another investment property while deferring capital gains taxes. Instead of paying taxes on the profit from the sale right away, the funds are rolled into a new property so the investor can keep their equity working for them.

1031 exchanges are commonly used by investors who want to upgrade properties, consolidate investments, or reposition their portfolio without immediately losing a portion of their gains to taxes.

What Qualifies for a 1031 Exchange

To qualify, both properties must meet a few basic requirements:

- The property being sold must be held for investment or business use
- The replacement property must also be investment or business property
- The properties must be considered “like-kind” (which generally includes most types of real estate investments)
- The replacement property should be equal to or greater in value to fully defer taxes

Primary residences and personal-use properties do not qualify.

Key Deadlines

Timing is critical in a 1031 exchange. The IRS requires two major deadlines:

- 45 Days — Identification Period
  - After selling the original property, the investor has 45 days to identify potential replacement properties.
- 180 Days — Closing Deadline
  - The purchase of the replacement property must be completed within 180 days of the original sale.

Missing either deadline disqualifies the exchange.

The Role of a Qualified Intermediary

- A qualified intermediary (QI) is required for a 1031 exchange.
  - The QI holds the funds from the sale of the original property and uses them to purchase the replacement property. This ensures the investor never takes direct possession of the money, which would otherwise trigger a taxable event.
  - The intermediary also helps coordinate the documentation required for the exchange.

Why Investors Use 1031 Exchanges

A 1031 exchange can help investors:

- Defer capital gains taxes
- Move equity into larger or higher-performing properties
- Diversify or consolidate real estate holdings
- Reposition a portfolio into different markets or property types

Many long-term investors use multiple exchanges over time to continue building wealth through real estate.
Important Reminder. A 1031 exchange can offer significant tax advantages, but it must be structured carefully. Investors should always work with a qualified intermediary, real estate professional, and tax advisor to ensure the exchange is handled correctly and complies with IRS guidelines.

Have Questions? We’re Here to Help.

US Title Insurance is a trusted resource for Realtors, mortgage lenders, real estate investors, builders and developers across Utah. If you need guidance on a transaction or have questions about this topic, our escrow officers are ready to help.