

1031

THE

EXCHANGE COMPANY, LLC

Even sophisticated investors can be caught off guard.



THE RULES CHANGED

Before 2018, personal property could be exchanged alongside real property. The Tax Cuts and Jobs Act ended that. Section 1031 now applies to real property only.



WHAT A COST SEGREGATION STUDY DOES

A cost segregation study carves the building into components, and some of those components are classified as personal property for depreciation purposes. Those pieces are not like kind eligible.



THE HIDDEN EXPOSURE

So you sell, you exchange into a larger property, the qualified intermediary handles everything correctly, and there is still recapture exposure on the personal property slice. Land improvements at fifteen years generally hold up as real property. The five and seven year components are where the tax exposure exists.



SECTION 1245 = ORDINARY INCOME TAX RATES

Cost segregation shifts basis into five and seven year property. That portion is Section 1245, which results in ordinary tax rates being applied instead of 25 percent rates as are applied to the building.



A USEFUL TOOL — WITH A LIMITATION

Cost segregation is a valuable strategy because the five and seven year components increase the depreciation deduction. However, those deductions are not deferred in the 1031 exchange.

Tax planning isn't just about what you defer — it's also about keeping more.

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