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1031 Exchange: A Business Strategy To Defer Capital Gains Tax, P.2

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In our last post, we began speaking about the potential for businesses to take advantage of tax law to defer *capital gains tax on business property* they want to relinquish. One important thing to point out, though, is that business owners who feel they may benefit from this tax strategy should always seek out professional help in doing so to ensure they have a thorough understanding of the process and that they avoid complications.

We already mentioned one of these complications—that businesses must be careful to set up a delayed exchange properly to avoid being taxed. This is an important point, and one which businesses are not always equipped to handle by themselves. Meeting the time limits in a deferred like-kind exchange requires that the business identify potential replacement property within 45 days from the date the exchanged property is sold, and that the exchange be completed within 180 days of the sale, unless there is an extension.

Avoiding premature receipt of cash and other proceeds of an exchange is also critical, and businesses should use an exchange facilitator in the process to ensure they avoid mishaps.

Another aspect of 1031 exchanges that should always be considered prior to deciding on a particular piece of property is the mortgage and other debt the business will take on and give away in exchanging one property for another. Reduction in debt as a result of a like-kind exchange can result in tax liability, so the right property must be selected.

Working with qualified professionals in the 1031 exchange process is important not only to ensure everything goes smoothly from a business perspective, but also that everything is done legally. There are scammers out there who promote like-kind exchanges either on misinformation or with the intention of defrauding their clients and the IRS. That last thing a business wants is to become involved in a fraudulent tax transaction.

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