
## *9 Easy Steps to Defer Capital Gains Taxes*

**Most exchanges, whether simultaneous or delayed, involve three (3) parties:**

1. the **Taxpayer** (exchanger)
2. the **Buyer** who is acquiring the Taxpayer's existing property (relinquished property), and
3. the **Seller** who is selling to the Taxpayer a new property (replacement property)

To realize all of the benefits of 1031 tax deferral, the taxpayer must add a fourth party: a Qualified Intermediary (QI) who facilitates the transfer of the properties and retains control of the funds pursuant to IRS-prescribed **safe harbors.** The process (with the exception of **reverse exchanges**) follows these nine simple steps:

1. **Tax Adviser**: The Taxpayer should consult with a tax or financial advisor to determine if a tax-deferred exchange is appropriate and is compatible with overall investment goals.
2. **Contract of Sale:** The Taxpayer signs the contract to sell the relinquished property to the buyer.
3. **Contact an Exchange Service:** When escrow is opened on the relinquished property, the taxpayer contacts an exchange service to set up and execute the Exchange Agreement. The Exchange Agreement must be executed before the first transfer of the first relinquished property.
4. **Close on Relinquished Property:** At transfer of the relinquished property, an exchange service directs transfer of title to the buyer and the sale proceeds are delivered to the exchange service.
5. **Manage your Time-line:** Timing is a key ingredient in any successful exchange. In order to execute a deferred exchange, the relinquished property must transfer title before the replacement property is acquired. However, with the favorable IRS Revenue Procedure 2000-37*, it is now permissible to do a ***"reverse exchange"*** by acquiring the replacement property prior to the transfer of the relinquished property to a buyer. Whatever method of exchange you choose, it is critical to stay within the ***deadlines*** stipulated by Section 1031.
6. **Identification Deadline:** Within 45 days of transfer of the relinquished property, the Taxpayer notifies the exchange service in writing on a standardized form, of the identified replacement properties.
7. **Notification:** The Taxpayer notifies the exchange service when the identified property (ies) are contracted for purchase and escrow is opened.
8. **Acquisition Deadline:** The Taxpayer closes escrow on the replacement property within 180 days from the transfer of the relinquished property. Note: Taxpayer should not file a tax return while the exchange is pending.
9. **Enjoy:** The taxpayer enjoys the benefits of tax-deferred savings!