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What is Like-Kind Property?

Many of the people that come into my office have a huge misconception of what types of properties they can exchange into. Most people I'm dealing with are selling multi-family rentals, for example, a four-plex or 6-unit apartment building. They think that the IRS definition of "like kind property" is another four-plex or 6-unit building. The truth is the IRS considers any deeded property that you don't live in and is purchased for investment purposes qualifies as "like kind." For example, if you sell a 6-unit building, you can buy a piece of raw land, or several single family residences or a small commercial building. They all are considered "like kind" under the IRS guidelines. The only property that wouldn't qualify would be a home that you immediately moved into and used as your primary residence. It can only be an investment property, not your home.

The replacement property must be valued as equal or greater to the property you sold. For example, if you sold a building for \$800,000, you would have to buy one or more properties with a total value of \$800,000 or greater. Another rule you must follow is that any debt on your property has to be replaced dollar for dollar as well. So if your \$800,000 had \$400,000 mortgage on it, the replacement property(s) would have to have at least \$400,000 of debt on it or greater.

Another example would be selling an \$800,000 property with no debt and going into a larger property using all \$800,000 of equity but buying a \$1,600,000 property that has 50% loan to value (LTV) or \$800,000 of debt. You can always "trade up" so this exchange would qualify as well.

These are very simple examples, everybody has details that must be taken into account, so be sure and discuss your particular exchange with a tax professional to make sure you're following all the rules.

For a more in-depth understanding of Like-Kind Exchanges go to:
http://www.exeter1031.com/article_like_kind_replacement_property.aspx

For a complimentary, personal and private consultation, give me a call at (800) 526-1599.

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