

# 1031 EXCHANGE INSIGHTS

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## COMPARING A SELF DIRECTED IRA AND A SECTION 1031 EXCHANGE (PART I)

Many Investors have discovered Self Directed IRA's in owning and investing in real estate. There are many similarities and some striking differences that make investment in real estate even more attractive where all sales are conducted as Section 1031 Tax Deferred Exchanges.

### Individual Retirement Accounts

- ◆ If the real estate investments are considered to be a trade or business or are debt financed, the investment earnings and gains are taxable annually.

- ◆ IRA's limit the amount that may be contributed to the account each year.

- ◆ Expenses associated with the IRA account are generally not deductible or their deduction is limited.
- ◆ Upon reaching age 70 1/2, the IRA must begin to liquidate the IRA account and distribute the account balance which is taxed as ordinary income.

- ◆ An IRA account balance is subject to income taxes and estate taxes at the time of the taxpayer's death. For many prosperous taxpayers, this cumulative tax can consume in excess of 65% or more of the account balance.

### Investment Real Estate Not Held In An IRA.

- ◆ Generally, the rental

income may be offset by business expenses including mortgage interest.

- ◆ The investor may reduce taxable income by depreciation.
- ◆ Gains from the sale of the investment real estate may be tax deferred in a Section 1031 Exchange.
- ◆ An investor is not limited by the amount that can be invested in real estate.
- ◆ Losses from real estate are generally deductible by investors by tax election attached to their return.
- ◆ Real Estate Investors are never required to liquidate their investment and take the proceeds into income.

Providing tax advice on like kind exchanges.

Strategic Property Exchanges, LLC serves as Qualified Intermediary on

Section 1031 Exchanges, including forward, reverse, and parking arrangements.

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## NON TAX MOTIVES FOR A TAX DEFERRED EXCHANGE

- ◆ Trading Up. An investor can improve the quality of the investment he or she owns.

- ◆ Change the type of investments. Such as management intensive property to less management intensive property, or to change the relative risk in certain types of investment.

- ◆ To improve the rate of return on investments, from non income producing to income producing or from low appreciation potential to high appreciation potential.

- ◆ To provide geographic or economic diversity of investments.

- ◆ To restructure liabilities.
- ◆ To restructure ownership structure or redeem out investors.
- ◆ Reduction of federal and state income taxes provides additional capital to invest in additional properties and financial independence.

### Coming Next Month

- Top 10 Questions asked regarding 1031 exchange
- What is a Tenant in Common Investment?
- Converting Property to Personal Use Under New Tax Act.