

PARTIAL TAX DEFERRAL

"DEFER SOME CAPITAL GAIN TAXES AND OBTAIN CASH NOW"



Compliments of

Although a §1031 tax deferred exchange allows an investor to defer 100% of their capital gain tax liability, some choose to only perform a partially deferred exchange.

WHAT IS A PARTIAL EXCHANGE?

In a partial exchange, the investor decides to defer some capital gain taxes and also recognize as gain by either 1) cash proceeds received or 2) a reduction on their replacement property debt — both of these events result in the receipt of "boot" which refers to any property received in an exchange that is not considered "like-kind." [Cash boot refers to the receipt of cash. Mortgage boot is a term describing an Exchanger's reduction in mortgage liabilities on a replacement property. Any personal property received is also considered boot in a real property exchange transaction.]

WHEN CAN CASH PROCEEDS BE RECEIVED?

Cash proceeds can be received as follows:

- 1) When the Exchanger instructs the closing officer to disburse a fixed dollar amount of proceeds to them directly from the relinquished property closing;

- OR -

- 2) After all identified property has been purchased or after the end of the exchange period, if there are properties which have been identified but not purchased.

WHAT ARE THE REQUIREMENTS FOR FULL TAX DEFERRAL IN AN EXCHANGE?

If an Exchanger intends to perform an exchange that is fully tax deferred instead of partially deferred, they must meet two specific requirements:

- 1) Reinvest the entire net equity (net proceeds) in one or more replacement properties;

- AND -

- 2) Acquire one or more replacement properties with the same or a greater amount of debt. [One exception to the second requirement is that an Exchanger can offset a reduction in debt by adding cash to the replacement property closing].

WHEN NOT TO DO AN EXCHANGE

If the boot is greater than the amount of the capital gain, then it's not recommended to do an exchange.



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