What is A 1031 Exchange?

By: Mark Walter, CCIM

1031 refers to a twelve-year old change in the tax rules that provides for a tax deferral on capital gains from commercial real estate transactions. Section 1031, in a simplistic summary, says, if you exchange a property rather than sell it, your tax payment on any gain can await future events which may or may not come to pass.

In effect, the gain is deferred – possibly for a very, very long time or even forever. Deferred payments are, effectively, long-term interest free loans from the government. Grab them when you can, but don't you dare do anything without a qualified intermediary. That is one of the many rules for a defendable 1031 exchange. We will discuss the other rules of a 1031 exchange in our next article.

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