1031 Exchange

Comprehensive Compliance Checklist

Keep your exchange on track and protect your capital from hidden tax triggers.

Phase 1: Pre-Sale & Planning (Before Closing)

- ☐ **Verify Property Eligibility:** Ensure the property was held for productive business or investment use (not a primary residence or a quick fix-and-flip).
- ☐ **Maintain Entity Consistency:** Confirm that the same taxpayer selling the property will be the exact same taxpayer purchasing the replacement property.
- ☐ **Hire a Qualified Intermediary (QI):** Retain an independent, bonded, and insured QI before closing. (Do **NOT** use your current CPA, attorney, or real estate broker).
- ☐ **Set Up the Exchange Escrow:** Ensure all sale proceeds will flow directly into a segregated, insured account held by your QI.

CRITICAL TRAP

Do **NOT** touch or receive any sale proceeds at closing. Any direct or constructive receipt of cash permanently disqualifies your 1031 exchange.

Phase 2: The 45-Day Identification Window

- ☐ **Mark Your Calendar:** Day 45 is strict; no extensions for weekends or holidays.
- ☐ **Select Identification Rules:** Use one of the following methods:
  - **3-Property Rule:** Identify up to 3 properties, any value.
  - **200% Rule:** Identify any number of properties, but total value must not exceed 200% of the sold property.
  - **95% Rule:** Identify any number of properties, and buy 95% of the total value identified.
- ☐ **Submit Identification:** Provide written, signed identification of property addresses to your QI before the deadline.

Phase 3: The 180-Day Closing Window & Financials

- ☐ **Calculate Deadlines:** Close by the 180th day (or the due date of your tax return, whichever is earlier; file Form 4868 to extend if needed).
- ☐ **Avoid Taxable Boot:** Purchase a replacement property with a value and debt equal to or greater than the sold property.
- ☐ **Finalize Closing:** Complete the purchase within the 180-day window.

Phase 4: IRS Reporting & Compliance

- ☐ **File Form 8824:** Report the exchange on your tax return for the year it started.
- ☐ **Calculate New Basis:** Track your deferred gain and the new property's adjusted basis.
- ☐ **Check State Rules:** Comply with state-specific reporting in California, Massachusetts, Montana, or Oregon.
- ☐ **Archive Documents:** Keep all exchange agreements and QI statements.