

The **Wolff** *Couple* present

Unleashing the True Power of the **1031 Exchange**

How to **Never Pay Taxes** on Real Estate Profits
Legally

&

How to Save Huge Tax Money through **Depreciation**
& *Never Pay Recapture*

PLUS Still Take Home the CASH!!

This report is amazing for only one reason, and that's because of the powerful features of the single greatest tax-savings investment strategy still available in the United States today –

The 1031 Exchange!

What is it? It is a tax-savings strategy offered by the I.R.S. which enables investors in Real Estate to **defer**, and when done properly, **completely avoid paying taxes on all profits!**

You read that right, it means that you can **legally pay no taxes** on huge dollar profits from all your sales of investment properties. Not only that, you can also never pay taxes on hundreds of thousands in Depreciation!

IRC § 1031 provides as follows (*underlines added*): "No gain or loss shall be recognized on the exchange of real property held for productive use in a trade or business or for investment if such real property is exchanged solely for real property of like-kind which is to be held either for productive use in a trade or business or for investment". IRC § 1031(a)(1).

4 Elements to 1031 “Like-Kind” Exchange

1. “Held For Investment”:

Most experts agree that holding a property for a year, or less with a Lease Agreement or certain other factors in place, is sufficient to prove this.

The crucial point is that the 1031 Exchange does NOT work for Flips, properties which are clearly intended to Rehab and Retail for profit.

2. Use:

The property must be intended for “productive use” like a business, or “for investment”, exactly what we do in the Pretty House arena.

3. Transfer:

An actual exchange/conveyance must occur, the title/deed must transfer.

4. Like-Kind:

The exchanged properties must be like-kind, meaning real property for real property. This can be a house for a house, a house for 3 houses, a house for vacant land, land for an apartment building, you get the idea. It covers any real property with a deed for any other real property.

If you do not use the 1031 Exchange Strategy on your Pretty House deals, you will pay taxes on all your profits. If you’ve held the property less than 1 year you will pay **Short-Term Capital Gains Taxes**, which is the same rate as your regular income tax.

If you hold the property over a year, you will pay **Long-Term Capital Gains Taxes**. Here’s the breakdown of those current tax rates:

Long-Term Capital Gains Tax Rates 2019

Income \$0 to \$39,375	0%
Income \$39,376 - \$434,550	15%
Income \$434,551 +	20%

By using the simple strategy of 1031 Exchanges, you roll forward all your profits into your next property or properties, and you pay no taxes on those profits. You also roll forward any amount of Depreciation that you have taken over the years on that property.

Depreciation is a tax-savings strategy allowed by the IRS that enables you to deduct a portion of each of your investment properties' values off your taxable income each year.

When you buy a house, the *Basis* is set by the asset's purchase price, plus commissions and the cost of improvements, MINUS the land value. A capital gain is realized when a capital asset is sold or exchanged at a price higher than its Basis.

The calculation for Depreciation on properties is as follows:

Asset Basis (property value – land value)

divided by 27.5 years

= Annual Depreciation

Using this formula you can legally depreciate millions of dollars over many decades. The problem is, when you sell that house eventually you have to **Recapture** all that you have depreciated, and that can be tens of thousands, up to a hundred thousand dollars or more.

The IRS currently charges a **25% tax rate** on **Recapture of Depreciation**.

Let's say you bought a house for \$250,000, put in \$10,000, held it for 6 years, and then sold it for \$310,000. That's a \$50,000 profit at a 20% tax rate for long-term capital gains. You also have to recapture \$60,000 in Depreciation at 25%, that's a tax bill of \$25,000. That's half of your total net profit!

So what can you do with a 1031 Exchange? **Pay NO TAXES!** Invest your Net Equity from your Relinquished Property into your Replacement Properties, carry forward your Depreciation, and you pay NO TAXES!

EXAMPLE:

Purchase Price	\$170,000	Expenses -	\$30,000	
Sold after 8 years	\$319,900	Profit	\$120,000	
				X 20% Long-Term Capital Gains Taxes
				= \$24,000 due to the IRS

Depreciate 8 years, average \$8000/year = \$64,000
X 25% Recapture
= \$16,000 due to the IRS

Use 1031 Exchange = \$40,000 Tax Savings!

There are some who say that a 1031 exchange is tax “deferred” and not tax “free”. That’s technically correct, but not if you do it right!

The **golden secret** at the end of the rainbow is, as long as you keep rolling forward the Profits and the Depreciation, **you will NEVER pay taxes!**

If you continue to roll forward your Deferred Profits and Depreciation from every sale into the next property or properties, your heirs will inherit all your property and, get ready for this...receive a

One-Time Step-Up in Basis!

That means all the Depreciation you took out over all those years is NOT subject to recapture. With the Recapture Tax Rate at 25%, depending on how many deals you’ve done this could mean literally millions of dollars.

Plus even if you did pay taxes on some property at some point, there’s a strong argument to be made that deferring the taxes is basically the same as not paying them! When a property is rolled over via a 1031 Exchange, the untaxed gain stays with each rollover, and would become taxable if the property were eventually sold outright. This is why the untaxed gain is called a "deferred gain".

However, with the power of the ***Time Value of Money***, the tax savings can be reinvested to accumulate to an amount that is even greater than the original taxes saved. You can buy several properties by rolling over the profits from one, and continually expand your asset base!

Looking at it another way, the tax-deferred savings are like a government loan with these great terms - NO interest, NO payments, and you pay it back when you want (i.e. when you decide to dispose of the property in a taxable sale). PLUS you may never have to pay back the loan (taxes), because...

DEATH PERMANENTLY ELIMINATES GAIN!

There is an old adage -"Defer, Defer, Defer, Die!" That is, by continuing to rollover property until death, the gain is no longer deferred but **permanently eliminated**. This is because under the tax law the death of the property owner will effectively ***cause an elimination of the taxable gain by a "step-up" of the tax basis to the fair market value of the property.***

As a result of employing section 1031, your heirs will have a much larger estate not only from the taxes saved, but also from the years of compounded earnings on these taxes saved, and the multiplication of the asset base upon every sale.

Follow the simple Steps here so you can do more than just defer the taxes, you can avoid paying them forever!

How to Do It

1. Have a Property Ready to Sell

--must be property intended as an "investment", so it's a "like-kind" investment, not a flip, going from "Relinquished" to "Replacement" Property

2. Insert language for 1031 Exchange into contract to sell house.

"Buyer is aware that seller intends to perform an IRC Section 1031 tax-deferred exchange. Seller requests buyer's cooperation in such an exchange and agrees to hold buyer harmless from any and all claims, costs, liabilities, or delays in time resulting from such an exchange. Buyer agrees to an assignment of this contract to a qualified intermediary by the seller."

3. Send signed contract to 3rd Party Administrator, “Safe Harbor”, along with completed Form, prior to closing. They are your Qualified Intermediary, They work it out with Closing Agent so that the funds are handled properly. *(See the Index for a list of quality 3rd Party Administrator Companies)*
4. Closing Agent disburses funds to 3rd Party Administrator.
5. Within 45 Days you can buy as many “Like-Kind Replacement” properties as you can locate until the profits are depleted, or you must identify 1-3 “Like-Kind Replacement” properties that you are exchanging into.
6. Within 180 Days you must close on 1 or all of your identified Replacement Properties. Alert 3rd Party Administrator to handle disbursement of funds
7. File taxes that carry \$0 tax burden. The I.R.S. rule is that you must invest all your Net Equity, they don’t want you getting a big check from this, the whole idea is to encourage Reinvestment.

So now you may be thinking, “This is all well and good, FOR MY HEIRS! They’ll live big, but I want some cash NOW! With this plan it looks like all my money is going back into houses and I’ll never see any of it!”

KEEP READING!

How to Still Take Home the CASH!

So what’s the big downside of all this 1031 Exchange stuff that everyone fears? All your Profits go back into Property. You go home with **NO CASH!**

Or do you?

Remember, you’re using the 1031 money from your Relinquished Property for the expenses of purchasing your Replacement Property. It’s really like you’re getting the new Pretty House for **Nothing Down**, no cash out of pocket! When done properly, you can even use the 1031 money for home improvements.

So you have a bright new shiny asset for effectively nothing down, and you'll have plenty of Lease Purchase Tenant Buyers eager to pay you a significant amount of money down to live in it!

Depending on the home's value, it's common to collect \$10,000, \$20,000, even as much as \$50,000 or more as a Non-Refundable Option Deposit. That is **spendable CASH** to you!

On our last one we rolled the profits from 1 sale into 3 properties, and we ended up getting over \$100,000 spendable CASH in our pocket from the Tenant Buyer's Non-Refundable Option Deposits.

So not only do you buy new properties from **happy sellers** who are getting good down payments, you do it for no money out-of-pocket. Then you turn around and collect a huge amount down that will also end up being...

You guessed it, **TAX-FREE!**

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1031 Exchange Company Referral List

First American Exchange	Very experienced and backed by a large financial institution
Old Republic Exchange	Well-respected, major financial backing
IPX 1031	Largest 1031 Exchange Company, Specialized
Wells Fargo	Professional, backed by a Bank
Asset Preservation Inc. (API)	Friendly, Offer Free Consultation
Exeter 1031 Exchange	Investors focusing on complex Exchanges