Providing Options to Clients with 1031 Exchanges Using DSTs and Opportunity Zones

IRS Section 1031, allowing individuals to defer taxes when selling investment real estate, is one of the most impactful tax strategies for preserving and growing one's net worth. However, completing a 1031 tax deferred exchange comes with many complexities. An investor must sell a property, move the proceeds to a Qualified Intermediary, perform due diligence, identify replacement property within 45 days and close on the replacement property within 180 days from the sale of the original property.

Investors often run into difficulties when completing a Section 1031 exchange, leading to the purchase of less-than-ideal replacement property and/or a taxable event. While not well known, there are alternative planning solutions that may be worth considering, Delaware Statutory Trusts ("DSTs") and Qualified Opportunity Funds.

Imagine an individual planning to exchange into a property on their own that has been impacted by recent events or who can no longer secure financing. What about investors who can't conduct proper due diligence within the short 45-day window? There are many investors who were planning to buy a property on their own who are now evaluating what alternatives they have. Financial advisors might consider introducing DSTs as a potential replacement property solution for clients. DSTs qualify as replacement property under IRS Revenue Ruling 2004-86 and offer a turn-key investment where the sponsor typically has already conducted due diligence, acquired the property, secured financing and is employing professional property management. In many cases, this strategy can be an attractive alternative for clients who are seeking a transition to passive real estate ownership or are simply unable to complete an exchange on their own.

Consider an investor who has already identified a replacement property, is past the 45-day identification period, and no longer wants to invest in the property they have identified or is no longer able to. What options do they have besides paying taxes? There is another solution that may be worth consideration. The investor may be able to take the gain from their property sale and a portion of the depreciation and invest those proceeds into a Qualified Opportunity Fund under the Qualified Opportunity Zone Program, created by the 2017 Tax Cuts and Jobs Act. There are unique tax benefits offered by this program for investors with capital gains on almost any type of asset, including investment property. While this may not be right for everyone, it is certainly worth consideration.

Many investors are not familiar with the flexibility of DSTs and the potential tax benefits of the Qualified Opportunity Zone Program and how they can be used to complement or replace a traditional 1031 exchange. Please find resources below for you and your clients to learn more.

EDUCATIONAL RESOURCES

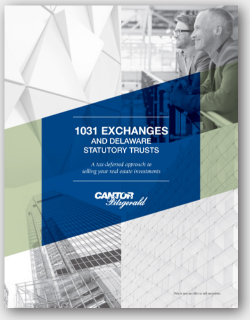
Tax Planning with Opportunity Zones

VIEW BROCHURE

Opportunity Zone Educational Brochure

VIEW BROCHURE

DST / 1031 Tax Deferred Exchange Educational Brochure



VIEW BROCHURE

Cantor Fitzgerald Capital

(855) 9-CANTOR | cfsupport@cantor.com | www.cantor.com