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New IRS Ruling Offers Tax Free Benefits to Real Estate Owners

Thanks to a recent ruling by the IRS, you can replace your management intensive or non-income producing real estate -- such as apartments or farm land -- into interests in blue-chip, trophy commercial properties and sleep better at night.

TIC (Tenants-In-Common) properties are attractive for 1031 exchanges because they have a "triple-net" effect, allowing you to enjoy travel and leisure without the usual hassles and headaches of commercial property ownership and management.

1031 Exchanges

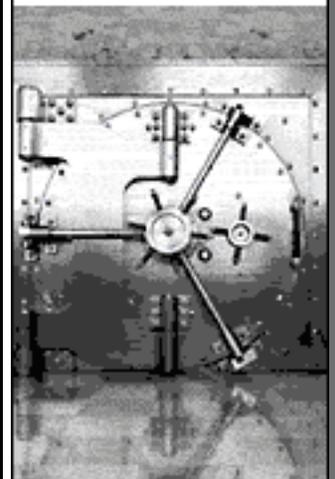
A 1031 Tax Deferred Exchange is a commonly used technique which allows you to sell existing properties and avoid (or defer) the capital gains taxes usually due upon sale.

You can sell a property (the relinquished property) held for investment or a business, but instead of actually receiving the sale proceeds, you can "park" or escrow the funds with a Qualified Intermediary (QI) or facilitator. You can then purchase a replacement property (or properties) using the proceeds held by the QI. In order to



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achieve the full effect or value of the 1031 Exchange, you must buy replacement properties for (at least) the price received for the relinquished property.

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A 1031 Exchange is not complicated, but if the steps are not followed precisely, it can be tainted or disallowed by the IRS.

As with any tax related situation, it is highly advised to seek out experts and professionals with experience in these matters. Since the 1031 Tax Deferred Exchange is a very popular technique, the industry is full of excellent practitioners able to assist you.

Opinion

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When considering a 1031 Tax Deferred Exchange, many taxpayers will begin seeking replacement property solutions prior to closing on the sale of their relinquished property.

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Since the government would like you to pay your capital gains taxes, the two most difficult components of the 1031 Exchange are related to timing.

The IRS allows only 45 days for you to properly identify replacement properties and up to 180 days to close on the purchase. Both time periods start on the day of closing! This process can be very difficult to achieve without experts working on your behalf.

Tenants-In-Common (TIC)

A TIC investment can be very attractive when faced with the aforementioned timing pressures, since the properties are usually already “pre-packaged” with financing, due diligence, title commitments and other necessary items already in place. The TIC closing can be very similar to purchasing a home, since the documents are all

assembled and ready for signature. This is very reassuring since it is estimated that a full one-third of all 1031 Exchanges fail!

The TIC related IRS ruling, (IRS Revenue Procedure 2000-22) allows you to sell or trade your individual ownership in a property held for investment or a business into TIC investments, (which are usually owned in concert with a group of investors) and get the benefits of the 1031 Exchange.

By using this simple (yet effective) procedure, you can defer the capital gains taxes normally paid on your profit. As an estate planning tool, the 1031 Exchange into a TIC is nearly unbeatable, since upon death, the property value or taxable gain is adjusted to its current market value, which means the distribution to your heirs is free of the capital gains taxes.

TICs are "Management Free"

TIC investments are usually offered by professional "Sponsors" that purchase or already own attractive, high quality, commercial properties. The Sponsor reconstitutes the single owner property into a Tenancy-In-Common ownership structure, which allows for up to 35 individual investors. The property is then re-sold at a marked-up, retail price to individual "TIC investors." Once the available equity is sold out, the Sponsor usually stays in place as the asset and/or property manager.

The Sponsor collects rents, pays property tax bills and handles the day-to-day property management and operations, including any leasing if needed. The individual TIC investor receives a pro-rata share of the income, depreciation for tax purposes, mortgage interest deductions and any profit upon sale.

Most sponsored TIC investments are to be held for five to ten years. And since TIC Sponsors usually offer high-end institutional grade properties, even a smaller amount of cash invested allows you a position into trophy real estate, which is by definition more likely to hold its value or appreciate. Some TICs allow as little as \$50,000 invested to participate.

TICs Offer Portfolio Diversification

Since you can invest into several TICs simultaneously, you can also obtain property ownership diversification. This helps mitigate the “all eggs in one basket” effect of having your equity or “nest egg” tied to one property.

Some TIC Sponsors offer several property types, such as retail, office, industrial and multi-family in various and diverse locations. Such programs can significantly diversify your investments, acting much like real estate stock mutual fund.

A 1031 into Tenants-In-Common properties may be the ultimate solution -- allowing you to preserve your asset value and hard-earned wealth, offer income as cash-flow, while living the worry-free lifestyle you deserve.

For more information, or to find an expert in your area, call (877) TIC-1031 or check out www.safeharborproperites.com .

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