

This article courtesy of

www.AptMags.com

apartment MANAGEMENT Magazines

When Harry met Sally – some helpful tips for building wealth in life and just plain making money in real estate!

Homeowners are building wealth in real estate through tax advantages

***85 year old tax rule once a trade secret among investors
now being embraced by mainstream owners***

This is the story of 'How Harry met Sally' and they both made a bundle together in real estate.

Harry used to be married to Leona who once said, "Only little people pay taxes. The rich know the rules so they don't have to!" That slogan sat with Harry and he made it his business to learn the rules. When Harry met Sally, he passed along his knowledge of tax free exchanging to her, and they were off and running.

Neither one really cared or knew much about taxes. They were interested in real estate investing, at a beginner's level. As they began to learn to take advantage of long standing tax rules it became apparent that they could make a considerable amount of money in real estate and keep it all without handing up to 30% of it to the government.

Harry took Sally to a new level of real estate investing which was beyond simple Tax Deferment, Total Tax Avoidance, Increased Leverage, Greater Equity and Higher Profits. At first blush, all this Harry met Sally stuff appears to be a bag of tricks.

But when you really stop to think about the power of exchanging it is not in the tax savings on the sale. The real benefit comes when you realize that the extra thousands increase the leverage you have to invest in your upcoming purchase.

This allows you to "roll" your profits at a faster rate, which allows you to "move up" into better, more profitable properties faster. The faster you move up, the greater your portfolio grows and at a powerful rate... much the way compounded interest adds up over time. But remember, the real estate is leveraged and you are always using all your gains, and you don't have to share any of them.

One day Harry and Sally were trying to figure out how much money they would make if they exchanged instead of selling and paying taxes." Take a look at the numbers in this chart and you will see what I mean Sally. It's incredible!" said Harry.

This article courtesy of

www.AptMags.com

apartment

MANAGEMENT Magazines

| | | |
|------------------|--|--|
| Maximum Purchase | | |
|------------------|--|--|

Here's how it mattered:

| | Sally- Doesn't use 1031 | Harry- Always Uses 1031 |
|---|-------------------------|-------------------------|
| After Tax Profits- Sale of Property One | \$56,250.00 | \$75,000.00 |
| Maximum Purchase Price of Property Two | \$281,250.00 | \$375,000.00 |
| Value After 5 Years | \$358,954.19 | \$478,605.59 |
| After Tax Profits- Sale of Property Two | \$58,278.14 | \$103,605.59 |
| Maximum Purchase Price of Property Three | \$291,390.71 | \$518,027.93 |
| Value After 5 Years | \$371,896.59 | \$661,149.50 |
| After Tax Profits- Sale of Property Three | \$60,379.41 | \$143,121.57 |
| Maximum Purchase Price of Property Four | \$301,305.64 | \$715,607.83 |
| Value After 5 Years | \$385,305.64 | \$913,317.08 |
| After Tax Profits- Sale of Property Four | \$62,556.44 | \$197,709.25 |

"Why should you use a 1031 Exchange? I mean besides the advantages of that chart you have here," said Sally.

"Instead of paying 25-40% in taxes on your gains you can sell your property and invest every bit of the profits. But with a 1031 Exchange, you can grow your portfolio unfettered and change into different properties throughout your life, always borrowing against the properties you purchase for cash requirements," said Harry.

As long as the interest you pay (and deduct) on the loans you take against the real estate is less than the tax you would have paid on the sale of the real estate, you are better off exchanging and borrowing

This article courtesy of Apartment Management Magazine. www.aptmags.com.

Copyright © 2008, Apartment News Publications, Inc. All rights reserved.

This article courtesy of

www.AptMags.com

apartment MANAGEMENT Magazines

than selling (or cashing out) and paying the tax. You must consider the fact that not only do you save the tax, but you grow your real estate assets at the same time.

So exchanging is not really a tax saving idea as much as it is a property/wealth growth process. It is of course an interest free loan from the government as they are telling you "Hey, keep investing and gaining wealth and we won't tax you a bit!!"

"How do you clear up all the confusion? So many people I know don't know about this or are confused about the rules," said Sally.

Steps to follow for a plan to exchange property and create wealth:

- 1. Understand the concept of what you are trying to accomplish to fit the rules to your facts.**
- 2. Plan and get good advice BEFORE you exchange!**
- 3. Any sale can be turned into an exchange in minutes with the right QI prior to closing the sale-even if the buyer does not cooperate.**
- 4. Increasingly agents, attorneys, accountants and the like are being sued and being held accountable for not advising clients of the possibility of an exchange and its value.**
- 5. Choosing the right Qualified Intermediary (required to be used by the IRS to complete a 1031 exchange) is the best choice one can make!**
- 6. Often people confuse section 121 and its requirements/rules with section 1031. They are apples and oranges. But you now can use both on the same property if the property qualifies, so call your QI for help.**
- 7. Like kind real estate means any kind of real estate can be traded for any other kind of real estate-not just condo for condo or vacant land for vacant land as was once the requirement.**

So the moral of Harry and Sally's story is trade, trade, trade. Gain wealth, keep it all and use the right QI for all your deals! You will enjoy life and live happily ever after.

David P. Greenberger, Esq, david@1031exchangeadvantage.com, is a real estate attorney who has been helping investors profit from the sale and acquisition of real property for over 20 years. He is a frequent speaker and trainer on the subject of 1031 exchanges.