

How a 1031 Exchange — and a Lesser-Known Tool Called a DST — Can Help Average Americans Build Tax-Deferred Wealth

Investors who own highly appreciated real estate often have a low tax basis in the underlying asset(s). As a result, real estate owners who consider selling these properties may face significant federal and state capital gains and depreciation recapture taxes which erode their hard-earned gains.

The 1031 Advantage: **A Legal Tax Deferral, Not a Loophole**

Since 1921, Section 1031 of the Internal Revenue Code has empowered owners of real estate investment property to defer and potentially eliminate capital gains taxes when they reinvest proceeds from a business or property held for investment purposes via “like-kind”¹ 1031 exchange transactions.

“LIKE-KIND” PROPERTY INCLUDES, BUT IS NOT LIMITED TO:



Land



Commercial properties



Vacation rental homes



Oil and gas interests



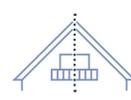
Delaware statutory trust
 (“DST”) interests



Single-family or multifamily
rental properties



Mineral, water
or air rights



Tenant-in-common
 (“TIC”) interests

1031 EXCHANGES ALLOW YOU TO SELL AN INVESTMENT PROPERTY, HARNESS THE FULL VALUE OF THE EQUITY TO ACQUIRE NEW ASSETS, AND KEEP UNCLE SAM WAITING FOR HIS SHARE.

The Process **in Motion**

A 1031 EXCHANGE FOLLOWS SEVERAL KEY STEPS:

01 Engage a Qualified Intermediary (QI) before your sale – You can’t take direct receipt of the proceeds.

02 Sell your investment property and have funds held by the QI.²

03 Identify replacement properties within 45 days of the sale.

04 Close on the replacement property or properties within 180 days.³

1. Like-kind property does not include a primary residence or properties located outside of the United States.
2. The QI facilitates the 1031 exchange and holds proceeds from the relinquished property sale to ensure the investor does not take “constructive receipt” of the funds.
3. Closing on the replacement property must be earlier of either 180 calendar days after closing on the sale of the relinquished property or the due date for filing the tax return in which the relinquished property was sold; unless an automatic filing-extension has been obtained. In any typical 1031 exchange, investors have 180 days in total to complete a 1031 exchange (with the first 45 of those days being set aside for identification of your replacement property). Generally, failure to meet these requirements will create a tax liability such as ordinary income or long-term capital gains.

Delaware Statutory Trust (DST): **A Passive 1031 Solution**

A DST is a legal structure that allows investors to own a fractional interest in large, institutional quality and professionally managed real estate—think Class A apartment complexes, medical buildings, and industrial properties—without day-to-day management and ownership burdens.

When structured properly, a DST qualifies as “like-kind” property for 1031 exchange purposes and allows each owner to receive their proportionate share of the cash flow income, tax deductions, and appreciation, if any, of the entire property.

POTENTIAL BENEFITS OF INVESTING IN A DST



Passive ownership



Estate planning



Access to professionally managed assets



Limited personal liability



Portfolio diversification



Monthly or quarterly passive income



Avoid financing obstacles



Back up property identification to beat the 45-day identification clock



Lower minimum investments, often as low as \$25,000



Option for remaining profit from sale of investment property

A Legacy Tool **for Families**

When structured thoughtfully, 1031 exchanges and DSTs can play a powerful role in estate planning. Upon death, heirs receive a step-up in cost basis, effectively erasing deferred capital gains. This means decades of deferral may ultimately convert into permanent tax elimination, helping families preserve and transfer wealth efficiently.

This is a brief and general description of certain 1031 guidelines. This is for informational purposes only, does not constitute as individual investment advice, and should not be relied upon as tax or legal advice. Please consult the appropriate professional regarding your individual circumstance.

There are material risks associated with investing in DST properties and real estate securities including liquidity, tenant vacancies, general market conditions and competition, lack of operating history, interest rate risks, the risk of new supply coming to market and softening rental rates, general risks of owning/operating commercial and multifamily properties, short term leases associated with multi-family properties, financing risks, potential adverse tax consequences, general economic risks, development risks, long hold periods, and potential loss of the entire investment principal.

Potential cash flows/returns/appreciation are not guaranteed and could be lower than anticipated. Diversification does not guarantee a profit or protect against a loss in a declining market. It is a method used to help manage investment risk.

The information contained within is not an offer to buy or sell securities or a solicitation to offer to buy or sell securities.

MADISON
CAPITAL GROUP