



INTRODUCTION TO 1031 EXCHANGE

Enjoy all the real estate investment gains, without any of the pains.

Preserve profit and build wealth through tax deferred exchange.

Selling investment or business property requires you to pay taxes on the profit from the sale. However, if you wish to reinvest, it is possible to defer paying the tax and use the entire amount of equity from the exchange to acquire substantially more replacement property.

If these are your investment goals:

- 🕒 Portfolio consolidation or diversification
- 🕒 Estate planning
- 🕒 Increasing depreciation
- 🕒 Leveraging equity

Northern Bank can show you how to maximize your investments with 1031 Exchange. We're here to:

- ✓ Make expert recommendations based on your goals
- ✓ Act as your Qualified Intermediary (QI) — an IRS requirement
- ✓ Manage all required procedures and documentation
- ✓ Handle the entire, complex 1031 Exchange process

The Process and the Benefits

What You Need to Know

Also known as a 1031 Tax Exchange, this process enables a property seller to shift funds from the sold property to a new investment and defer the obligation to pay capital gains taxes. This process is extremely beneficial when an owner wishes to build net worth and either consolidate or diversify their holdings. By deferring the payment of these taxes, the property owner may realize improved cash flow, solve management problems, increase leverage and enhance the opportunity for greater wealth appreciation.

How It Works

According to the Internal Revenue Service's Code 1.1031(k), a person owning property for investment or business purposes can sell their property and purchase "like-kind" replacement property or properties, through the use of a Qualified Intermediary, in order to defer payment of capital gains taxes. The replacement property the exchangor expects to purchase must be identified within 45 days, and settled within 180 days of the date of sale of the relinquished property.

How Northern Bank Helps Facilitate the Process

In an exchange, Northern 1031 Exchange[®] acts as the Qualified Intermediary (QI), which is a key requirement for completing a qualified tax deferred transaction. As a QI, we have extensive knowledge of the exchange procedures and contract stipulations, and we will help make the process simple and efficient.

NOTE: *The code forbids parties such as the seller's agent, broker, attorney, accountant, family members and business partners from acting in this capacity.*

Northern Bank's Role as Qualified Intermediary (QI)

As the QI, we draft the exchange agreement and assignment documents, accept the assignments of all contracts associated with the exchange, and notify all parties of these assignments. We provide instructions to the settlement agent and create an escrow account for the proceeds from your sale, eventually funding the settlement of the replacement property from that account. Also, we receive the required 45 day identification notice for the replacement property and handle direct deeding issues. At the end of the exchange transaction, we produce a comprehensive accounting of the funds placed in escrow and copies of all exchange and closing documents for the client's accountant.



PROPERTIES THAT QUALIFY

- ✓ Apartments
- ✓ Build to Suit
- ✓ Condos
- ✓ New Construction
- ✓ Office Buildings
- ✓ Multi-Family
- ✓ Investment Property
- ✓ Raw Land/Lots
- ✓ Rental Homes
- ✓ Vacation Rentals
- ✓ Businesses
- ✓ Franchises
- ✓ Personal Property



The Requirements and Specifics

Does Your Replacement Property Qualify?

The replacement property or properties must be of equal or greater value than the relinquished property, and all cash equity from the sale must be reinvested. If not, then any remaining funds are subject to capital gains tax.

What Is Considered Like-Kind Property?

"Like-kind" doesn't refer to the grade or quality of a property, but rather the property's nature or character. For example, if you own a single-family rental property and wish to purchase a farm as a replacement, then that falls under the definition of "like-kind." Exchanging a lot or condominium for an office building also meets those guidelines. The IRS has broadly defined the type of property that may be exchanged for any other type of property or properties.

What Properties Don't Meet 1031 Requirements?

Examples of properties that would not qualify for a 1031 Exchange would be a personal residence, speculative houses or properties designated for a quick turnaround (i.e., purchasing a home or other property and completing improvements for immediate sale), partnership interests, stocks and bonds.



The personal attention they gave us to help guide us through the 1031 Exchange process and make sure it was seamless was a huge benefit of working with Northern Bank. The communication is phenomenal.

Mark Cafua | Franchise Owner, Dunkin'

1031 Exchange: Step by Step

- 1 The property to be relinquished goes under contract.
- 2 The property owner secures a Qualified Intermediary (QI) and enters into an exchange agreement.
- 3 The QI is assigned the sales contract.
- 4 The property sale is completed and the QI places the proceeds in a separate exchange account on behalf of the owner.
- 5 The property owner conveys the title of the relinquished property to the buyer.
- 6 Within 45 days, the property owner identifies replacement properties and informs the QI, in writing, of their choices. In addition to the 45-day contingency, the property must be located in the U.S. and be settled within 180 days.
- 7 The property owner enters into a contract to purchase the replacement property.
- 8 The sales contract for the new property is assigned to the QI.
- 9 Closing on the replacement property occurs within 180 days.
- 10 Title is conveyed to the property owner from the seller of the replacement property.
- 11 The QI transfers the proceeds from the short-term account to the replacement property seller, with the property owner receiving any remaining funds, provided there are any, from the account.



If you're planning on selling an investment or business property, investigate the options available to you by reaching out to us. You may be able to save a significant dollar amount on taxes. Let Northern 1031 Exchange help you navigate the process.

Contact us to help you preserve your profits and build wealth through Tax Deferred Exchange.



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