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DID YOU KNOW?

Did you know that you can make a like-kind exchange into an interest in a Delaware Statutory Trust?

It is widely understood that you can defer taxation of the gain on a sale of investment real estate if the sale proceeds are reinvested into new investment real estate within 180 days. This timing can be challenging to meet in any market, but even more so in today's competitive real estate market.

Well-known strategies for mitigating this timing challenge, including conducting a reverse exchange or investing in a TIC interest with a sponsor. Another alternative that people are less familiar with is the Delaware Statutory Trust (DST). A DST is a trust managed by a trustee that holds one or more properties for the benefit of investor beneficiaries. The IRS ruled in 2004 that the purchase of a beneficial interest in a DST holding real estate can qualify as "replacement property" for purposes of Section 1031. While there are a couple drawbacks to a DST (lack of control and liquidity), they also have lower deal costs, lower investment minimums, asset diversification and easier administration and as a result have largely supplanted TICs as the prepackaged rollover option of choice. In addition, there are numerous sponsors that offer investments in DSTs to meet the reinvestment requirements for Section 1031.

Bottom Line: Investing in a DST can facilitate a selling investor's ability to comply with the timing requirement of a like-kind exchange in a hot real estate market as well as provide diversification and professional management.

If you have any questions, please contact the author or one of Taft's Tax attorneys.

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You didn't come this far only to come this far. – Tom Brady