

1031 LIKE-KIND EXCHANGE DEADLINES EXTENDED DUE TO COVID-19

Author(s): Bryan G. Landgraf

In response to President Trump declaring a national emergency regarding the COVID-19 outbreak, the Department of Treasury and IRS took joint action to provide additional relief for taxpayers amid the crisis by extending key deadlines for certain federal income tax filing and payment requirements. Many real estate owners and developers with pending transactions were left wondering what impact the pandemic and subsequent relief packages will have on their 1031 like-kind exchange deadlines.

Late last week, the IRS issued new guidance broadening the July 15, 2020 filing extension to include certain “time-sensitive actions,” such as 1031 like-kind exchange purchases. Under a 1031 tax exchange, an investor may defer capital gains taxes by utilizing sales proceeds to purchase a replacement property. To qualify, taxpayers must identify similar properties within 45 days of the sale of the property and purchase one of those identified properties within 180 days. The current Shelter-In-Place Orders in California and other states have severely limited potential buyers’ ability to schedule inspections and studies, evaluate tenants and negotiate financing. Investors currently looking to satisfy their exchange requirements could face substantial tax implications.

While welcome relief for some, the recent deadline extension is vague and potentially confusing. In general, if either the 45-day identification period or the overall 180-purchase deadline falls between April 1 and July 15, the deadline is automatically extended until July 15, 2020. Therefore, depending on when their deadlines fall, taxpayers may receive different levels of relief. For example, a buyer whose 180-day exchange deadline is up on July 1 would get a 15-day extension, while one whose due date is in April or May would get a longer extension.

We encourage buyers to consult with their exchange accommodators and tax preparers and to

discuss any current or pending purchase transactions with an experienced real estate attorney. For more information regarding these 1031 Exchange deadlines, please contact Bryan Landgraf at Trainor Fairbrook.