

“Can I Do an Exchange with a Working Interest...?”

“Can I Do an Exchange for a Royalty Interest...?”

“What Qualifies...?”

“What About My Particular Situation...?”

The Experts

have the answers to your questions...

What Is a ¹⁰³¹ Exchange?

1031 exchanges are specifically structured transactions that join together the sale of an old property and the purchase of a new property for the purpose of deferring taxes.

Exchanges are primarily used for buying and selling investment real estate, but they can also be used for personal property that is used in a business. Examples of qualifying property include mineral interests, bare land, rental property, commercial buildings and homes other than your primary residence.

¹⁰³¹ Can You Do a Exchange with Mineral Interests?

Yes, an exchange of your working or royalty interest for another working or royalty interest qualifies for a 1031 exchange. For example: if you sell a working interest you could replace it with either another working interest, or with a royalty interest.

But be careful: if you sell a working interest and retain royalty interests or surface rights, the IRS may disallow your exchange.

You don't have to exchange your interest for another interest, however. You can exchange your interest for other real estate. You could sell your mineral interest for example and buy hard real estate such as an office building or an apartment building.



In the above examples we've assumed that you sold a mineral interest. It is also possible to sell hard real estate, such as an office building or an apartment building and buy mineral interests as your replacement property.

Production payments do not qualify for a 1031 exchange because production payments are for services you perform in connection with extracting oil or gas from the ground. These payments are ordinary income to you.

What if I Sell Equipment with my Mineral Interest?

The sales of working interests often involve the sale of the related equipment. While the IRS allows you to transfer a minimal amount of equipment tax free, transfers of substantial equipment, usually exceeding 15% of the sale price, require the equipment to be treated as a separate exchange. Equipment exchanges have different rules in a 1031 exchange.

What Happens to Intangible Drilling Costs in a ¹⁰³¹ Exchange?

The costs you incurred to drill and develop the well site must be recaptured to the extent that you do not acquire qualified natural resource property. In other words, if you sell a

*What Are the IRS Rules
for Exchanges...*

working interest and buy an office building, you would have to “recapture” the IDC costs you have previously deducted.

What Makes ¹⁰³¹ an *ExpertExchange* Different?

What many QIs don’t want you to know is that their industry is largely unregulated. Without standards, they can offer you little assurance of their training and qualifications. In fact, they will do little more in an exchange than fill in the blanks on generic forms.

“...we are
available
seven days a
week,
virtually
around the
clock, to
answer your
questions...”

But **The 1031 Exchange Experts** are different: we do *ExpertExchanges*. All of our exchanges are handled by a team of CPAs and real estate attorneys. Choosing our licensed professionals ensures that the education, knowledge and ethical standards of our team have passed rigorous testing.

You can trust our experience as well. We’ve completed thousands of qualified 1031 exchanges.

Don’t just take our word for it. Our experts are published in trade journals across the country and cited in national publications like **Forbes**

and **Bloomberg’s Wealth Advisor**. So that’s why we say *The 1031 Exchange Experts* are writing the book on 1031 exchanges.

What Can I Expect ¹⁰³¹ with an *ExpertExchange*?

When you choose **The 1031 Exchange Experts**, you’ll have reliable service before, during and even after your exchange. Our expert consultants are available seven days a week, virtually around the clock, to answer your questions as they arise.



The IRS Rules for Exchanges...

You will need to follow six primary rules for your exchange to meet stringent IRS regulations:

- 1 Real Property Use.** Both your old and new properties must qualify as investment or business use. If both properties pass this test, you can exchange nearly any type of real estate.
- 2 45 Day Identification Period.** You have 45 days from the closing of your sale to list the properties you may want to buy. There are no exceptions to the deadline.
- 3 180 Day Exchange Period.** From the sale closing date, you have 180 days to close on the purchase of one or more properties from the 45-day list. Again, there are no exceptions to this deadline.
- 4 Qualified Intermediary (QI).** The IRS mandates that you use a QI to prepare the legal documents for your exchange. Because the QI must be independent, it cannot be your friend, employee, broker, or even your accountant or attorney. The QI also holds your money, so that you do not have access to it.
- 5 Proper title holding.** You must purchase and take title to your new property exactly as you held title to your old property.
- 6 Reinvestment Requirement.** To defer all of your capital gain tax, you must buy a property equal or higher in value than the one you sold. Also, you must reinvest all of the cash proceeds from your sale.

The regulations, court cases, and IRS rulings that apply to your exchange are ever-changing. It is important to choose a QI like **The 1031 Exchange Experts** that understands these laws, and carefully monitors new legal developments.

We will also help you when it comes time to report your taxes. You will receive our *TaxPak* – a step-by-step guide with sample forms, worksheets and examples for reporting your exchange to the IRS.



How Do I Know My Money is Safe?

ExpertExchanges are protected with our *1031 SafeGuards* – a comprehensive system designed to give you the security you need.

First, we place your exchange funds in a segregated account at a reputable, FDIC-insured financial institution.

Second, we maintain a multimillion dollar fidelity bond as additional security for you.

Third, we promise that if your exchange is challenged by the IRS, we will defend your exchange in the audit at no additional charge.

No other QI in the industry offers you expert consultation, the service of *TouchPoints*, and the protection of our *1031 SafeGuards*.

How Can I Get Started?

All it takes is a phone call or e-mail, and

The **1031 Exchange Experts** will go to work for you. We are ready to provide further information and answer any of your questions.

1031 *Here's How a ExpertExchange Works:*

- **Our experts consult with you** on how to best structure your exchange – always considering your particular situation.
- **We meticulously document your exchange** to meet all IRS requirements.
- **We coordinate with your realtor, attorney, CPA and closing agent** to properly complete the exchange.
- **We keep everyone informed** at critical points throughout the process with our exclusive *1031 TouchPoints* program.

Find Out More About Our Services:

Nation-Wide

Toll free: 866-694-0204

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1031
The Exchange Experts LLC

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