Hotel Exchanges

Use §1031 Exchange to Increase Investment Returns

1031 Knowledge

WHAT IS A 1031 EXCHANGE?

Section 1031 of the Internal Revenue Code (IRC) allows a taxpayer holding real property for use in a business or for investment to defer payment of federal and state capital gain taxes and depreciation recapture if they purchase a "like-kind" real property in accordance with the rules and regulations of the tax code. A 1031 exchange provides the opportunity for hotel investors to use most of the sale proceeds to leverage into more valuable real estate, diversify into other properties, increase cash flow and investment returns or consolidate into a larger property.

IRC SECTION 1031

Section 1031 states that *"no gain or loss shall be recognized on the exchange of property held for productive use in a trade or business or for investment if such property is exchanged solely for property of like kind which is to be held either for productive use in a trade or business or for investment."*

NUMEROUS EXCHANGE STRATEGIES

- Hotel investors have a number of options available:
- Delayed Exchange: Provides up to 180 days to acquire another replacement property.
- Reverse Exchange: Provides the option to purchase a desirable replacement property before selling the hotel currently owned.
- Improvement Exchange: Construct a new hotel or rehabilitate an existing hotel -- all with tax-deferred dollars.

HOTEL EXCHANGE CONSIDERATIONS

When exchanging a hotel, the taxpayer must be certain they are exchanging "like-kind" real property for other "like-kind" real property. The personal property components of a hotel do not qualify for 1031 tax deferral. Investors performing a hotel exchange should always work closely with an attorney or CPA to ensure the transaction is structured properly.

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