

Tax-Deferred Exchange Services



Lakeside Bank

1031 Tax-Deferred Exchange – A Powerful Tool

Section 1031 of the Internal Revenue Code enables owners of investment property to dispose of their property and acquire another property of “like kind” without paying capital gains tax on the profit. Here is a brief overview:

- Buyer and seller enter into a contract with the seller assigning his/her rights under the agreement to a Qualified Intermediary such as Lakeside Bank.
- At closing, the proceeds of the sale are held by Lakeside Bank as the Qualified Intermediary, rather than being disbursed to the seller as they would be in a normal sales transaction.
- The seller has 45 days to provide the Qualified Intermediary with an identification of the property he or she intends to acquire.
- Closing on the purchase of the replacement property must take place within 180 days of the transfer of the initial property.
- At closing, Lakeside Bank uses the proceeds of the first sale to complete the purchase of the acquired investment property.



Key Advantages

Section 1031 of the Internal Revenue Code offers an outstanding way to build wealth by deferring taxes. By deferring capital gains taxes, 100% of the equity you have built in one property can be used to acquire another “like kind” property of equal or greater value.

While qualifying personal property can also be exchanged, the tax-deferred exchange strategy is very popular among real estate investors. An exchange may enable you to acquire a more valuable property than by simply selling one property and buying another.

Understanding The Concepts

The following terms are provided to help you understand the general requirements applying to tax-deferred exchanges.

Like Kind – In order to qualify for an exchange, real or personal property must be held for investment and exchanged for property of “like kind.” In other words, almost any type of real estate may be exchanged for other real estate. An apartment building can be exchanged for a retail center; farm property can be exchanged for a warehouse and so on. Personal property such as art and collectibles must meet more stringent classifications to satisfy this requirement.



Identification Period – The replacement property must be adequately identified within 45 days of the transfer of the first property.

Exchange Period – The replacement property must be acquired (closed) by the earlier of a) 180 days from the transfer of the first relinquished property or b) the due date for filing your federal income tax return (including extensions) for the year in which you transferred the first property.

Equal To or Greater Than – In order for an exchange to be fully tax-deferred, the value of the replacement property must be equal to or greater than the value and equity of the relinquished property. In addition, any debt on the replacement property must also be equal to or greater than the debt on the relinquished property, unless cash is added to offset the debt.

Replacement Property – The following rules will help you identify qualifying replacement property.

- **3 Property Rule** - Replacement property may consist of up to 3 properties, regardless of value.
- **200% Rule** - Any number of replacement properties may be identified as long as their combined fair market value does not exceed twice the value of the relinquished property.
- **95% Rule** - Any number of replacement properties may be identified as long as you receive 95% or more of the total value of all of the properties identified.



Our Role

Lakeside Bank is experienced and qualified to help with your tax-deferred exchange. While we cannot advise you on the tax implications of the transaction or the value of the properties involved, we serve as the disinterested party (Qualified Intermediary) required by law to facilitate these transactions. If you are currently working with a tax advisor and/or real estate professional, we will work with all parties to make the exchange as easy and efficient as possible.

We can provide you with the forms needed to describe your contract to purchase or sell as part of an exchange transaction; identify the property you wish to acquire; structure the legal relationship with the Qualified Intermediary; direct the proceeds to be properly invested and paid, and many other forms that may be necessary to complete the transaction.

As a Qualified Intermediary that is also a highly regarded financial institution, Lakeside Bank can hold or invest sale proceeds safely and profitably. And as a community bank which values every customer relationship, we can and do provide a high level of



personal service. Our people will answer your questions promptly and take a genuine interest in making your exchange successful.

We're Ready To Help

From contract to closing, Lakeside Bank is prepared to help you with every aspect of a tax-deferred exchange. Because these transactions can be quite complex, we are accustomed to working with tax advisors and real estate professionals to help clients accomplish their specific investment objectives. If you are considering the sale of investment property and would like to discuss the specific advantages of a tax-deferred exchange, please call us at your convenience. We're ready to assist you with no obligation.



Lakeside Bank

*Your Qualified Intermediary in 1031
Tax-Deferred Exchanges*

*L*akeside Bank has met the financial needs of Chicago for over 40 years. With our competitive products and services to meet your every need, you can count on Lakeside Bank to help you achieve both your personal and business financial goals. Our exceptional customer service, dedication and long term commitment separate us from the competition. That is why Lakeside Bank continues to be one of the top performing banks in Chicago year after year.

*“Investing in your future”
is our commitment to you!*



Lakeside Bank

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