

We recently highlighted the decision by the IRS to provide deadline extensions to 1031 exchangers who, due to the transactional challenges imposed by the COVID-19 pandemic, were at risk of failing to complete their exchanges on time, potentially incurring some big capital gains tax bills.

THE GOOD NEWS

In Notice 2020-23 released on April 10, 2020, the IRS issued new guidance specifying that anyone with a 45-Day Identification Period or 180-Day Exchange Period deadline occurring between April 1 and July 15, 2020 will have an automatic extension. Taxpayers with deadlines that occurred in February and March do not benefit from this action because their deadlines fell before April 1, 2020, although the Federation of Exchange Accommodators (FEA), a national 1031 exchange trade association, will be seeking additional relief for the taxpayers that need it.

THE BETTER NEWS

In response to the IRS action, we've had many questions about how the new guidelines apply to different situations. Our team at Fortitude Investments Group is quite familiar with the ruling and we've been able to help clients and other investors understand the new mechanics. Perhaps the best way to explain how the extensions apply to both the 45-day and 180-day deadlines is by showing a couple examples.

EXAMPLE #1

John Smith's 1031 Exchange began on April 1st, 2020 and his 45-Day Identification Period deadline is May 16th. Under Notice 2020-23, John's new deadline is now extended to July 15th, 2020 providing him additional time to find the right replacement property. John still must close on the replacement property by Day 180 of their Exchange which is September 28th, because that date falls after his July 15th extension date.

EXAMPLE #2

Sarah Jackson's 1031 Exchange began on December 15th, 2019. Her 45-Day Identification Period deadline was January 29th. Because Sarah's ID replacement deadline occurred prior to April 1, 2020, no extension applies. But since her 180-day Exchange Period Deadline occurs on June 12th, she benefits from the Notice's extension rules and now has until July 15, 2020 to complete her exchange.

WE TRUST THESE EXAMPLES HAVE HELPED CLARIFY HOW THE GUIDELINES WORK.

**IF YOU HAVE ANY QUESTIONS,
PLEASE FEEL FREE TO CONTACT OUR TEAM.**