

What Are 1031 Exchange Closing Costs?



1031 Exchange proceeds can be used to pay for certain routine selling expenses and for certain routine purchase costs. While there are NO other clear rulings on this subject, most tax advisors agree on the following expenses:

ALLOWABLE CLOSING EXPENSES	EXPENSES RESULTING IN A TAXABLE EVENT	MAYBE
• Real Estate Commissions • Closing Escrow Fees • Title Premium Owners Policy • Notary Fee • Real Estate Transfer Taxes • Qualified Intermediary Fee • Legal or Tax Fees Incurred Specific to the Sale or Purchase of Property • Messenger Fees • Document Fees	• Credit Report • Lender Application • Lenders Title Ins. • Mortgage Insurance • Impounds - Reserves • Inspection Fees • Assumption Fees • Homeowner Dues • Repairs-Termite Work • Security Deposits • Replacement Property Loan Acquisition Fees • Utility Charges • Hazard Insurance • Any Prorations of Rents, Property Taxes, Insurance and Security Deposits	• Appraisal Fees • Seller re-connecting to the Sewer

*Not a complete list

* If the taxpayer uses their sale proceeds or exchange funds to pay for such fees, the total of those fees will be considered taxable boot.

The easiest way to remember what an allowable exchange fee is, and what it is not, is to ask if the expenses incurred would appear on settlement statement if the taxpayer was purchasing the property for cash.

The taxpayers should have their tax advisors review the numbers prior to closing. Due to the lack of clear guidance in the law, an Exchanger should always discuss closing costs with their tax advisor prior to their respective closing.

Revenue Ruling 72-456; Treasury Regulation Section 1.1031(k)-1(g)(6) and (7); IRS Form 8824.