

# Tax Straddling - 1031 Exchanges at the End of the Year



Pay Taxes in 2023 or 2024?

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When a 1031 Exchange is opened in the latter part of the year, a seasonal benefit worth mentioning is “tax-straddling.” If that exchange is successfully completed, those taxpayers defer taxes to receive the benefits of the 1031 Exchange. However, if that exchange fails and is not completed, taxes will be due. The benefit for those taxpayers is that they may still qualify for a “mini-tax deferral” (via tax straddling) where they can report and pay their taxes on their 2023 tax returns instead of immediately on their 2022 tax returns.

Here is the technical explanation of how tax straddling works. Let’s assume a taxpayer begins a 1031 Exchange at end of 2022 (generally after October 17th), but the exchange is not successful. Taxes on the gain from the sale will then need to be paid. If the funds held by the 1031 intermediary are not returned to the taxpayer until after December 31st, the attempted exchange carries into 2023. This situation would create an Installment Sale under IRC Section 453 (and the 1031 regulations). With tax straddling, the taxpayer has two options:

- The taxpayer can elect to report the taxable gain on the tax return for the year in which the property was sold (2022). Please refer to [Publication 537](#) for election rules; -OR-
- The taxpayer can report the taxable gain on the tax return for the year in which the taxpayer came into possession of the sale proceeds (2023). By choosing option B, the taxpayer is granted a de facto one-year tax deferral on the gains from the sale of the property. (See [Internal Revenue Code Section 453](#) for details).

By choosing the second option, the taxpayer essentially receives a one-year tax deferral of the gain from the sale of the property. (See Internal Revenue Code Section 453 for details). Tax straddling simply provides an added incentive to investors selling investment property at the end of the year. Taxpayers will not be penalized by the IRS for attempting to complete a 1031 Exchange. Why not attempt to complete a 1031 Exchange with a one-year deferral as a back-up plan?

Taxpayers should consult with their tax advisors since tax straddling does not apply to all sales. Gain attributable to debt relief will be recognized in the year of sale. Please call us at IPX1031 to discuss tax straddling and other valuable tax deferral solutions. Consult with your tax and legal advisors to determine if you can take advantage of these valuable tax-deferral methods.

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At IPX1031, we pride ourselves on being the industry leader in 1031 expertise, service and security. We aim to be your complete information resource and look forward to helping you and/or your clients maximize qualifying investments through a 1031 Exchange strategy. For more information about 1031 Exchanges, our complimentary 1031 Exchange webinars, or to [initiate an exchange](#), visit our website at [www.ipx1031.com](http://www.ipx1031.com) or email or call today.

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