

# Converting a Primary Residence into a Rental

## §1031 EXCHANGE NEWS

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1031-exchange guide is available for you to download @ [www.jennyleswati.com/invest](http://www.jennyleswati.com/invest)

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The IRS gave guidance in Revenue Procedure 2005-14 on how to report a conveyance of property used as the taxpayer's primary residence and then held as investment property. *A taxpayer may convert a primary residence into a rental and then sell it and benefit from both Internal Revenue Code (IRC) §121 (primary residence) and IRC §1031 (investment property). The taxpayer must comply with all rules in both sections to qualify.*

Therefore, if a taxpayer is selling a rental property which the taxpayer previously owned and used as a primary residence for at least 2 out of the last 5 years, the taxpayer may be eligible for capital gain exclusion under IRC §121 and then because it is currently investment property, the remaining gain can be deferred under a section 1031 exchange. IRC §121 allows a taxpayer, if married, to take \$500,000 of tax free money from the gain and \$250,000 if the taxpayer is single.

All the IRC §1031 Exchange requirements must be met to defer the remaining gain and depreciation. Reinvest all the remaining net proceeds into the replacement property, obtain an equal or greater amount of new debt on the replacement property that is required and the same taxpayer must acquire the replacement property as who sold the relinquished property. The taxpayer has 180 days to complete the exchange and during the first 45 days, the taxpayer must identify the replacement property or properties.

The IRS gives six examples in the revenue procedure on their webpage at [www.irs.gov](http://www.irs.gov) by searching Revenue Procedure 2005-14.

*Investors considering a §1031 tax-deferred exchange should seek the counsel of their accountant and attorney.*