

Pennsylvania Finally Recognizes 1031 Exchanges

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Pennsylvania will permit the tax deferral benefit of 1031 like-kind exchanges for the first time starting in the 2023 tax year. Under Section 1031 of the Federal IRS Code, recognition of the gain on the sale/exchange of real estate properties held for business use or investment could be deferred if the taxpayer reinvested the proceeds in like-kind property. Although Pennsylvania taxpayers could defer recognizing the gain for **federal income tax purposes**, taxpayers could not defer the gain for **Pennsylvania income tax purposes** prior to the adoption of [House Bill 1342 signed by Governor Wolf on July 8, 2022](#) which goes into effect on Jan. 1, 2023.

Under 1031 like-kind exchanges, all proceeds from the sale of the "relinquished" property must be reinvested in like-kind "replacement" property or the capital gains tax is payable on the gain. The 1031 exchange requirements are complex and there are strict deadlines for the identification of and closing on the purchase of the replacement property. Barley Snyder has real estate and tax attorneys with extensive knowledge and experience in handling simple and complex 1031 like-kind exchanges of commercial and investment real estate. Barley Snyder works with an affiliated business, Central Pennsylvania Land Exchange LLC (CPLEX), which is a Qualified 1031 Intermediary.

CPLEX, as an intermediary, directly receives the proceeds of the sale of the relinquished property, provides the taxpayer with detailed instructions on the requirements of a 1031 like-kind exchange, and assists with the closing on the acquisition of the replacement property. Barley Snyder is also a title agency with in-house attorneys who are also title agents licensed in Pennsylvania and Maryland.

What are the benefits of 1031 exchanges?

- Immediate tax deferral.
- Time value of the tax deferral.
- Greater buying power.
- Increased cash flow.
- Consolidation of properties.
- Relocation or expansion of a business.
- Estate preservation.
- Retirement exit strategy for business owners.

If you are considering the pursuit of a 1031 like-kind exchange, it is important to remember to reach out to your 1031 exchange qualified intermediary before getting to the closing table.

If you have any questions about 1031 like-kind exchanges or CPLEX, please reach out to partner [Derek Dissinger](#) or managing partner [Jeff Lobach](#).

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