

Common Mistakes in Exchange Reporting—And How to Spot Them

Nearly Half of 1031 Exchangers Are Overpaying Their Taxes
Here's how you can check to see if you are paying too much tax.

WHY ERRORS HAPPEN: THE EXPERTISE GAP

The QI Limitation

Qualified Intermediaries (QIs) facilitate the transfer of funds but do not prepare your tax reporting.

The Specialist Shortage

Our research shows very few tax professionals have deep 1031 experience—most see just one or two exchanges in their entire career.

The Reporting Challenge

Exchanges require careful interpretation of documents. Existing software does not help your tax professional interpret these documents.

THE FIVE CHECKS

1 Find Your Depreciation Schedule

A depreciation schedule is a supplemental report (often in landscape format) your tax professional should provide every year.

WHAT TO LOOK FOR

- Title: "Fixed Asset Report" or "Depreciation Schedule"
- Separate line items for Land and Building

RED FLAGS

- Cannot find the schedule attached to your return
- Replacement property has fewer than 4 entries

Check for 2 entries for land and 2 for building, or distinct entries for 5-year and 15-year property. Anything less means your depreciation is being shortchanged.

2 Verify Land-to-Building Allocation

In most states, land should not exceed 25% of total building value. If land value is reported as equal to or higher than building value, you are losing thousands in annual deductions.

3 Check Useful Life Columns

If your schedule shows two building entries, one should be 27.5 years (residential) or 39 years (commercial). The other entry should have a shorter life.

PROPERTY TYPE	TYPICAL LIFE
Residential Building	27.5 Years
Commercial Building	39 Years
Cost Segregated Assets	5 or 15 Years

Note: Identical lives usually mean missed depreciation. If you don't see shorter-life property, a review is highly recommended.

CHECKS 4 & 5

4 Confirm "Date Placed in Service"

Every asset's Date Placed in Service should be on or after the replacement property's purchase date.

Earlier dates suggest misplaced assets or unbooked additions—both clear signs of reporting errors.

5 Form 8824—Lines 15, 16 & 18

Examine the IRS Form 8824 attached to the year you sold the property:

L15 Boot Received (Prorations)

A zero here often means security deposits or rent prorations were misreported as taxable income.

L16 Total Replacement Price

Must include cash + new debt. Blank values understate your investment cost basis.

L18 Adjusted Basis

If this amount is less than the debt on your replacement property, your exchange needs an expert review.

HOW WE CAN HELP

✓ Exchange Documentation

Post-closing analysis creating CPA-ready reports that maximize deductions and ensure full tax deferral.

✓ Cost Segregation

Accelerate depreciation by reclassifying property components to boost cash flow from day one.

✓ Exchange Review

Review of past exchanges to identify missed deductions and tax recovery opportunities.

✓ Audit Assurance

Expert defense if your exchange is questioned—included free with every documentation engagement.

\$10K+

AVERAGE CLIENT SAVINGS

\$1.5M+

DEDUCTIONS RECOVERED ANNUALLY

100%

FOCUSED ON 1031 ONLY

WHAT OUR CLIENTS SAY

"Because of Exchange Planning Corporation's work, I received \$105,000 in carryover depreciation to offset future passive income—something my accountant wouldn't have known to look for."

— Paul

"Exchange Planning Corporation was indispensable in navigating the complicated waters of our 1031 exchange into multiple DSTs. Their knowledge of tax implications and how to maximize our tax advantages was incredible."

— Neal