Remember, however, in order to qualify under Section 1031, the property being exchanged must be investment property or property held for use in a trade or business. The primary residence of a seller does not qualify under Section 1031.

The mechanics of deferred exchanges can be deceptively simple. By using a third party (known as an intermediary) to facilitate an exchange, the actual exchange process can be virtually invisible to other involved parties. The relinquished and replacement properties can even be deeded directly to the buyer and seller; there is no need to deed the property to the intermediary. There is now little risk of frightening a buyer or seller and losing a sale.

Direct deeding makes a user friendly exchange mechanism even easier and more functional. To use direct deeding, the intermediary simply enters into an agreement with the buyer of the relinquished property for the transfer of the relinquished property to the buyer. A similar agreement with the seller of the replacement property is also needed.

To relate this procedure to our hypothetical example, John can contract directly with a buyer to sell his apartment. Prior to closing, John must assign his contract to the intermediary with the knowledge and consent of the buyer. At closing, John can then deed the property directly to the buyer.

John can acquire replacement property by contracting with a seller and later assigning his contract to the intermediary. The intermediary never has to actually receive title to either the relinquished or the replacement property.

Because the mechanics of deferred exchanges are now so easy, exchanges present a very viable marketing opportunity.

If John can defer paying $30,000 in taxes he has $105,000 to reinvest rather than $75,000. Assuming a loan to value ratio of 75%, John can purchase a $420,000 replacement property rather than a $300,000 property. When John's investment horizon is raised by $120,000, your potential commission opportunity is also increased by about $7,200.

"The mechanics of deferred exchanges can be deceptively simple. By using a third party to facilitate an exchange, the actual exchange process can be virtually invisible to other involved parties."

The real beauty of the simplified exchange is that all parties (with the exception of the Internal Revenue Service) win. There is no increased cost or hassle to the buyer, the seller defers his tax, and you, the broker, have the opportunity to increase your commission. That kind of opportunity is rare.

Now, having informed you of the simplicity of the mechanics of the new exchanges, let me quickly add that the determination of the exact tax consequences is very complex.

Furthermore, Section 1031 requirements are strictly enforced. There are complex rules and regulations for 1031 exchanges; even a seemingly minor variance from the rules and regulations can be fatal to deferring taxation.

In other words, don't try this at home without skilled assistance: It could be hazardous to your financial health.

Before entering into an exchange, a property owner should know the potential tax consequences. For instance, if a taxpayer receives cash or property from the transaction or is relieved of debt, not all of the gain will be deferred. The effect the exchange will have on the tax basis of the replacement property must also be considered. There are situations in which a tax deferred exchange may not be advisable.

There are also time limitations for completion of a deferred exchange. The seller must identify replacement property within 45 days of the transfer of the relinquished property and must actually acquire the replacement property within 180 days of the transfer of the relinquished property. These time limitations cannot be extended for any reason.

The advantages of exchanges now far outweigh the disadvantages. Under the right circumstances, an exchange can allow your client to obtain an interest free loan from the government by deferring taxes on the disposition of real estate creating a win-win situation for both of you.

Don Hancock is a shareholder in Hancock & Piedfort, P.C., attorneys at law, in Austin, Texas. He is certified by the State Bar of Texas as having special competence in commercial and residential real estate and is a frequent author and speaker on real estate issues. If readers would like to investigate the advantages of Section 1031, the attorneys at Hancock & Piedfort would be pleased to help.