Tax Day 2025: Key Deadlines and Considerations for Reporting 1031 Exchanges

As Tax Day approaches, individuals and businesses are gearing up to file their tax returns. If you completed or started a 1031 Exchange in 2024, it's important to be aware of the specific reporting requirements for your return. In this blog, we cover key tax deadlines and provide guidance on how to properly report a 1031 Exchange for the 2024 tax year.

Reporting Deadlines for Different Entities in 2025

The due dates for 2024 tax returns, based on the type of entity and form being filed, generally follow these timelines:

Individuals

- *Standard Filing Deadline:* Most individuals living and working in the U.S. must file their 2024 tax returns (Form 1040 or 1040-SR) and pay any taxes due by April 15, 2025.
- *Extended Filing Deadline and Extension:* If you elect to file for an extension, you must submit it no later than April 15, 2025, which will allow you until October 15, 2025, to file your 2024 tax return. To obtain an automatic six-month extension, file Form 4868 and pay an estimated amount to avoid penalties and interest.
- *Maine and Massachusetts Residents:* Due to local holidays, individuals in these states must file their 2024 tax returns by April 17, 2025.

Farmers and Ranchers

- *Standard Filing Deadline:* Farmers and ranchers who didn’t make an estimated tax payment by January 15, 2025, must file their 2024 tax returns (Form 1040 or 1040-SR, Schedule F) by March 3, 2025.
- *Extended Filing Deadline and Extension:* If an estimated tax payment was made by January 15, 2025, the filing deadline aligns with the standard tax deadline of April 15, 2025. To obtain an automatic six-month extension, file Form 4868 and pay any estimated taxes due. The extended deadline is October 15, 2025.

Corporations

- *Standard Filing Deadline:* Corporations must file their 2024 calendar year income tax return (Form 1120) and pay any taxes due by April 15, 2025.
- *Extended Filing Deadline:* File Form 7004 and make an estimated tax payment by April 15, 2025, to receive a six-month extension and avoid penalties. The extended filing deadline is October 15, 2025.

Partnerships and S Corporations

- *Standard Filing Deadline:* Partnerships and S corporations must file their 2024 tax returns (Form 1065 or Form 1120-S) and provide each partner or shareholder with their Schedule K-1 (or Schedule K-3, if applicable) by March 15, 2025.
- *Extended Filing Deadline:* File Form 7004 and make an estimated tax payment by March 15, 2025, to receive a six-month extension and avoid penalties. The extended filing deadline is September 15, 2025.

Any entity reporting a 1031 Exchange conducted in the 2024 tax year must report the exchange to the IRS by filing Form 8824 with their income tax return by the applicable deadline.

Tax Reporting Guidelines for Various Property Types

Raw Land

For the sale of raw land, gains or losses must be reported on Form 8949, with the results transferred to Schedule D. If the property has been owned for less than a year, the sale is reported as a short-term gain or loss, while ownership of a year or more qualifies it as a long-term gain or loss. When calculating the adjusted basis, it is important to track the purchase price, associated costs, and any improvements made on the property. Although raw land itself cannot be depreciated, certain improvements to the land may qualify for depreciation and must be tracked separately for accurate reporting. Additionally, if the raw land is held as investment property, it is not subject to the $10,000 SALT (State and Local Tax) cap on property tax deductions imposed by the Tax Cuts and Jobs Act of 2017. If the land is part of a 1031 Exchange, Form 8824 must also be filed.

Business Use Property

For business use property, income generated from the property is reported on Schedule C for actively managed business property, or Schedule E for passive or rental property. Deductions for operating expenses, depreciation, property taxes, and business loan interest can be claimed to offset income generated by the property. When selling business property, the transaction should be reported on Form 8949, with the results transferred to Schedule D for capital gains or losses. Depreciation recapture is required for the depreciated portion of the property and must be reported on Form 4797. If the sale involves a 1031 Exchange, Form 8824 must also be filed.

Rental Property

For rental property, income is reported on Schedule E, allowing deductions for expenses such as mortgage interest, property taxes, repairs, and depreciation. When the rental property is sold, the sale should be reported on Schedule D, and any depreciation previously claimed must be accounted for through depreciation recapture, which is reported on form 4797. If the rental property is part of a 1031 Exchange, the transaction must also be documented on Form 8824.

Depreciation and How It Affects Your Tax Return

Depreciation allows property owners to deduct the cost of wear and tear on income-producing or business-use properties over time, which reduces taxable income during ownership. However, this benefit comes with tax implications upon sale due to depreciation recapture, which requires paying taxes on the amount of depreciation previously claimed.

Eligible properties include residential rental properties, which are depreciated over 27.5 years, and commercial properties, which are depreciated over 39 years. Depreciation is calculated by dividing the property's cost basis (the purchase price minus the land value, as land is not depreciable) by its IRS-defined useful life.

Depreciation Recapture Tax

When selling a depreciated asset, the IRS requires you to "recapture" the total depreciation claimed during ownership. To calculate depreciation recapture:

1. Determine the total depreciation claimed over the ownership period.
2. Multiply the amount by the federal tax rate of 25%.

Form 4797 must be used to report the sale of business or income-producing property, detailing the purchase price, date, total depreciation claimed, and the resulting recapture tax. Details from Form 4797 are then included on Schedule D to calculate capital gains or losses. Adjust the sales price by subtracting selling expenses and the adjusted basis (original cost minus total depreciation).

Reporting a 1031 Exchange

When filing your taxes, any 1031 Exchange completed in 2024 must be reported using Form 8824, providing the IRS with a comprehensive record of your exchange.

Documents Needed to Complete Form 8824

Accurate and complete documentation is crucial for properly filling out Form 8824. Here is what you'll need:

- **Closing Statements:** These include the final settlement documents for both the sale of the Relinquished Property and the purchase of the Replacement Property(ies). They provide key details, such as sale prices, transaction dates, and any adjustments made at closing.
- **Exchange Agreement:** The Qualified Intermediary (QI) will provide this document, which outlines the structure of the exchange and confirms it meets IRS requirements.
- **Depreciation Schedules:** If the Relinquished Property was used for business or investment purposes, the depreciation schedules must be included. These are essential for calculating depreciation recapture, which may impact your tax liability upon sale.
- **Timeline Records:** Maintain a detailed log of key dates, such as the date the Relinquished Property was sold, the date you identified potential Replacement Properties (within the 45-day identification period), and the date you acquired the Replacement Property(ies) (within the 180-day exchange period). Many QIs will provide this information as part of an exchange summary at the conclusion of the 1031 Exchange.

Special Considerations for 1031 Exchanges Conducted in 2024

1031 Exchanges That Span Two Tax Years

When a 1031 Exchange spans two tax years, such as those initiated after July 5, 2024, the 180-day exchange period will extend into 2025. However, the entire exchange will be reported on the 2024 tax return, regardless of when the Replacement Property(ies) are acquired, provided the exchange was successful. Additionally, if any funds remain in the exchange account due to unacquired properties or failure to complete the exchange before the deadline, they cannot be returned before January 1 of the following year, potentially creating tax implications.

To fully utilize the 180-day exchange period without being impacted by the April 15 tax deadline, Exchangers initiating exchanges after October 18, 2024, must file a tax extension using Form 4868, which provides an additional six months to report the exchange and avoid forfeiting time in the 180-day window. The drop and swap technique involves converting partnership interests to interests in the underlying real estate itself before an exchange.

Failed 1031 Exchanges

Understanding the distinction between a successful and failed 1031 Exchange is crucial to proper tax reporting. A successful exchange adheres to IRS rules, including identifying Replacement Property(ies) within 45 days and completing the acquisition within 180 days or the due date of the tax return for the year in which the exchange commenced, allowing for tax deferral to be reported on Form 8824.

However, if an exchange fails, such as failure to identify or acquire Replacement Property(ies), as well as failure to fully utilize exchange funds, any unused funds are returned subject to the standard associated taxes including federal capital gain, depreciation recapture, state, and net investment income taxes.

For exchanges spanning two tax years, such as one initiated in late 2024 with funds returned in 2025, the gain is generally reported in the year the funds are received, unless a special election is made to recognize the gain in the sale year under IRS Section 453 installment sale rules. This option can provide short-term tax deferral, offering flexibility in managing tax obligations. Additionally, if the exchange results in taxable "boot" due to partial Replacement Property acquisition, installment sale rules allow taxes on the boot to be paid in the following year, rather than being paid entirely in the year of the exchange.

State-level Tax Implications

State-level tax implications can add additional considerations when completing a 1031 Exchange. Certain states, like California, have specific reporting requirements. For example, California requires Exchangers to file Form 3840 to track deferred gains within the state. This is particularly important because California does not conform to federal tax deferral rules for 1031 Exchanges. Even if the Replacement Property is located outside California, the state requires Exchangers to report the sale of the Relinquished Property and the acquisition of the Replacement Property(ies) within its jurisdiction. Additionally, California imposes tax on any capital gains from the exchange if the Replacement Property is sold outside the state without a new 1031 Exchange, and failure to comply with these reporting requirements could result in penalties. It's crucial to review the tax laws of all relevant jurisdictions, as states may have differing rules for reporting deferred gains and other tax obligations, ensuring full compliance with all state-specific requirements.

As always, we recommend that Exchangers work closely with their tax preparer, advisor, or CPA to ensure accurate reporting and compliance when filing their tax return for the 1031 Exchange. For a complete breakdown of tax items for the year, visit the IRS website.