MARK DIMERCURIO · 1031 CAPITAL SOLUTIONS

FREE INVESTOR GUIDE

The 1031 → DST Starter Guide

The tax-deferred exit from investment real estate, demystified — what a 1031 exchange is, where a Delaware Statutory Trust fits, and the honest trade-offs of each. Education only — not tax, legal, or investment advice.

Why this guide exists

Most people who reach this page reach it for the same reason: they're tired. Tired of the tenants, the repairs, the rising insurance, the just-cause eviction rules and rent caps — a myriad of obligations that used to feel manageable and now feel like a second job. The property has done its work. The instinct is to sell.

Then comes the hard question: **what happens to the tax?**

Most owners see only two ways out. Sell and pay the tax — what we call the **tax bomb** — or keep landlording. This guide is about a **third option** that a lot of people simply don't know exists: a 1031 exchange into professionally managed real estate, which lets you trade an *active* property for a *passive* interest while deferring the tax. Nothing here is a recommendation. Every situation is different, and the right answer depends on facts only you and your own CPA and attorney know. The goal is just to clear the fog enough that you can ask better questions.

Pay the tax bomb

Hand roughly a third of your equity to the IRS and your state, all at once.

Keep landlording

Hold on — and keep the tenants, the repairs, and the 2 a.m. calls.

The third option

A 1031 exchange — defer the tax AND step back from management.

Educational framework. A 1031 defers, not eliminates, tax. Individual results vary.

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1. The tax bomb: what really comes due at sale

When you sell appreciated investment property, the bill is usually bigger than owners expect, because it isn't one tax. It's a stack:

- **Federal capital gains** on the appreciation — typically up to 20% if you've held more than a year.
- **Depreciation recapture** — the depreciation you wrote off each year lowered your basis, and the IRS effectively claims that back at sale, taxed at a rate that can reach **25%**. This is the piece that catches almost everyone off guard.
- **Net investment income tax (NIIT)** — an extra **3.8%** can apply above certain income thresholds.
- **State income tax** — anywhere from 0% to north of 13%, depending on where you live.

A subtle point drives the size of it: the depreciation you deducted over the years *lowered your adjusted basis*. Lower basis means a larger gain — and a larger gain means a larger bill. Stack all four pieces together and the combined bite can reach well into the double digits as a share of your gain. On a property held for decades, that can be a six-figure check. That total is exactly what a 1031 exchange is designed to **defer**.

The tax bite on a sale of appreciated rental real estate

Fed cap gains	**Deprec. recapture**	**NIIT**	**State**

- Federal capital gains — up to 20%
- Depreciation recapture — 25% on the depreciated portion
- Net Investment Income Tax — 3.8%
- State income tax — varies (e.g., up to ~13.3% in CA)

Total: roughly 30–40% of your gain

Illustrative combined rates; your actual tax depends on your basis, income, and state — ask your CPA. Individual results vary.

All figures here and below are **hypothetical / illustrative — individual results vary.** Only your CPA can compute your actual numbers.

2. What a 1031 exchange actually is

A **1031 exchange** (named for Section 1031 of the U.S. tax code, written in 1921 originally for farmers) lets you **defer** capital gains and depreciation-recapture tax when you reinvest the proceeds from selling investment real estate into other **"like-kind"** investment real estate.

Two things to be clear about:

- **"Like-kind" is broad** for real estate. Since the Tax Cuts and Jobs Act, it essentially means real estate for real estate held for investment — a rental house for an apartment building, raw land for a commercial building, or a fractional interest in professionally managed real estate. The standard is about *use*, not resemblance.
- **Defer is not eliminate.** A 1031 pushes the tax down the road; it does not erase it. Whether and when that deferred tax ultimately comes due depends on your future decisions — and a step-up in basis at death can, in some cases, change that picture entirely. That's a conversation for your CPA and estate attorney, not a promise from anyone.

The practical effect: deferral keeps your **full equity working** in real estate, rather than sending a slice to the IRS at the moment of sale.

3. The clock: 45 days and 180 days

A 1031 exchange runs on a strict timeline that starts the day your sale closes:

- **45 days** — to formally **identify** your replacement property (or properties) in writing.
- **180 days** — to **close** on the replacement and complete the exchange.

Both are **calendar days** — weekends and holidays count — and both are strict. There are two common ways to identify: the **three-property rule** (name up to three properties of any value) or the **200% rule** (name any number, as long as their combined value is no more than twice your sale price).

You also cannot take receipt of the sale proceeds. A **qualified intermediary** — an independent third party — holds the money between the sale and the purchase. If the cash touches your account, even briefly ("constructive receipt"), the exchange can fail. Miss a deadline, or touch the funds, and you can lose the deferral. This is why lining up the qualified intermediary and your replacement options *before* you sell matters so much.

The 1031 clock: two strict deadlines

Day 0	Day 45	Day 180
Your sale closes	Identify replacement(s) in writing	Close the replacement

Both are strict calendar days — and a qualified intermediary holds the proceeds the whole time.

Both deadlines are strict calendar days. Plan before you sell. Individual results vary.

4. Where a DST fits — the third option

A **Delaware Statutory Trust (DST)** lets you own a **fractional, passive interest** in professionally managed, income-producing real estate. A DST beneficial interest can qualify as **like-kind replacement property** in a 1031 exchange, which makes it the structure behind the third option in two common situations:

- **You want to defer the tax but stop being a landlord.** A DST moves you from *active* to *passive*: the sponsor and trustee handle every operating decision. You trade the maintenance hassles for a professionally managed interest.
- **You're up against the 180-day clock.** Because a DST is already assembled, it can be faster to close than finding and buying a whole replacement property yourself.

There's a second quiet advantage. Instead of trading one building for one building, a DST lets you spread a single sale across a **mosaic** of institutional real estate — multifamily, industrial and logistics, medical office, self-storage, across different markets. One concentrated asset becomes a diversified one.

A DST is a **security**, offered only to **accredited investors**, solely through a sponsor's Private Placement Memorandum (PPM). **Distributions are not guaranteed.**

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5. A worked example

> **Hypothetical / illustrative — individual results vary.** Not a quote, projection, or promise.

Picture an investor who bought a Bay Area duplex decades ago for roughly **$220,000**. Today it's worth about **$1.7 million**. The rent has grown over the years — but nowhere near as fast as the equity, so a large pile of value sits in the building producing relatively little income.

If this owner sold outright, the stacked tax bomb — federal gains, depreciation recapture up to 25%, the 3.8% NIIT, and a high state rate — could **roughly** claim a meaningful slice of that gain, leaving materially less than the full $1.7M to redeploy. By instead reinvesting *all* of the equity through a 1031 exchange into a passively managed interest, this hypothetical owner keeps their **full equity working** and, because the equity is finally matched to income-oriented real estate rather than a low-yielding building, could see cash flow improve — illustratively, even roughly double. Again: deferred, not erased, and entirely dependent on the specifics. Your CPA runs your real numbers.

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6. The honest trade-offs

A DST solves the landlording problem — it does **not** remove investment risk. Before considering one, weigh:

- **Illiquidity.** DST interests are long-term holds with no public market. You generally cannot sell on demand.
- **Loss of control.** The sponsor and trustee make every operating and disposition decision.
- **Distributions are not guaranteed.** Income depends on the underlying property and can fall or stop.
- **Fees.** DST offerings carry fees and costs that reduce returns. Read the PPM's fee disclosures.
- **Risk of loss.** Like any real estate investment, a DST can lose value, including loss of principal.

A DST is not suitable for everyone. It suits investors who are accredited, want to defer tax, and are ready to trade active control for a passive, longer-term hold.

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7. Questions to bring to your advisors

Before any decision, sit down with your **CPA** and **estate attorney**. Useful questions to ask:

For your CPA / tax advisor:

1. What is my estimated capital gains *and* depreciation-recapture tax if I sell outright?
2. How would a 1031 exchange change that, and what is my adjusted basis going forward?
3. What are the cash-flow and tax-reporting implications of a DST's income?

For your estate attorney:

4. How would this property — or a DST interest — pass to my heirs, and what are the basis and step-up implications?
5. Does this fit my broader estate and legacy plan?

For yourself:

6. Do I want to stay in real estate at all, or do I want liquidity?
7. Could I need this money back in the next several years? (If yes, an illiquid DST may not fit.)
8. Am I making this decision with time to spare — or under deadline pressure after a sale is already moving?

The best version of this decision happens *before* you sell, with your own advisors at the table.

Next steps

- **Estimate the tax on a sale:** the interactive estimator at *markdimercurio.com/estimator*
- **Watch the 10-minute briefing** or **register for a live webinar**
- **Talk it through:** book a complimentary, no-pressure educational call with Mark

Education only. This guide is not tax, legal, or investment advice, and it is not an offer to buy or sell any security. Please consult your own advisors.

Most people land here because they're tired — tired of the tenants, the repairs, the rising costs — and they think their only choices are to keep going or write a big check to the IRS. The whole reason I do this work is that there's usually a third option worth understanding, and none of it should be rushed. I'm not your CPA or your attorney, and I'd never push you one way or another; bring this guide to them, ask the hard questions, and let's just have a no-pressure conversation about whether any of it fits your situation.

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