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tax. Right? Sure, but there are very specific rules and conditions and if, like many investors, you make one of these common mistakes, you could be paying a significant penalty.

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A 1031 exchange is a frequently-used practice of swapping one business or investment asset for another in order to defer recognition of capital gains or losses, but it doesn't always mitigate taxes and there are very specific rules and conditions that apply.

There are also many potentially costly mistakes that tax professionals and investors should be wary of. If a client of yours, like many investors, makes one of these common mistakes, they could end up paying a significant penalty.

What follows are 8 of the biggest, and avoidable mistakes investors make, and ways to avoid these costly errors, according to tax attorney [Stephen M. Breitstone](#), partner and head of the Tax practice at [Meltzer Lippe](#) in Mineola, New York.

- 1. Biggest mistake is overpaying for replacement properties.** If a buyer alerts the seller and broker that he or she is looking for a replacement property, they may jack up the price because they know the buyer is up against the wall with a tight time frame.
- 2. Depositing your exchange money with the wrong qualified intermediary.** If you don't make the right choice, you could lose your money. A first step is to make sure you set up a separate account that can only be released with your signature and the intermediary's at a reputable institution.
- 3. Using a real estate attorney, or relying upon an exchange company to set up a 1031 exchange.** Although you're exchanging real estate, a 1031 exchange is a tax transaction as much as a real estate transaction, if not more so. If a 1031 exchange is not done properly, the tax consequences can be significant.

4. Buying something that doesn't make sense, just to get a 1031 exchange.

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seller looking for an exchange only gets 45 days after closing to identify a replacement property. If the seller hasn't done the due diligence, or the replacement property is sold to someone else, or you don't have a contract within that time period, you're out of luck.

8. Lack of proper tax planning. A 1031 exchange requires that past, present and future planning be taken into consideration to minimize tax and economic consequences.

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