

### **HOLDING PERIOD FOR PROPERTY ACQUIRED IN A 1031 EXCHANGE:**

When a taxpayer acquires real property in a like-kind exchange, and subsequently converts that property to his or her principal residence, the new law requires that the taxpayer own the property for at least five (5) years prior to its sale or exchange in order for the exclusion of gain rule to apply.

As long as the other qualifications are met, including the two-year ownership and use test, a sale of the principal residence that occurs more than five years after the date of its acquisition, is not barred from tax deferral under Code Sec. 1031. The five-year rule thus becomes another holding period test in the context of property acquired in a 1031 exchange.