



LA SHORT-TERM RENTAL RESOURCES

# The 1031 Timing Checklist for Short-Term Rental Owners

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Including reverse-1031 decision tree and the rules most STR owners miss. Every deadline, every safe-harbor test, every pitfall, in plain English.

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## Thinking about a 1031 on an STR? Read this first.

The 1031 rules for short-term rentals are different from primary-residence rules and different from long-term rental rules. Most owners learn this the hard way, after they've already sold.

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## Why this checklist exists

The 1031 exchange rules for short-term rentals are different from primary-residence rules and different from long-term rental rules. Most STR owners learn this the hard way: after they've already sold and are surprised by their tax bill.

The IRS published a specific safe harbor for vacation and short-term rental properties (Revenue Procedure 2008-16) that lays out exactly what qualifies. If you don't pass the safe harbor, you may still qualify under general principles, but you've just taken on significant audit risk.

## Part 1: Does your STR even qualify for a 1031?

A property qualifies for 1031 exchange only if it is **held for investment or productive use in a trade or business**. Personal-use property does not qualify. The IRS gave STR owners a specific safe harbor in Rev. Proc. 2008-16 to clarify the line.

### The 24-month, 14-day, 14-day rule (safe harbor for relinquished property)

The property you're **SELLING** must satisfy ALL of the following for 24 months before the exchange:

- Owned by the taxpayer for at least **24 months** immediately before the exchange.
- In each of the two 12-month periods within that window: rented at fair value for **14 days or more**.
- In each period: personal use did not exceed the greater of **14 days** OR **10% of the days rented at fair value**.

### Same rule applies to replacement property

The property you're **BUYING** must meet the same test going forward: 24 months, 14-day rental floor, 14-day or 10% personal-use cap, per 12-month period.

### What counts as personal use

- You staying in the property.
- Your family staying (with limited exceptions for fair-market rentals to family).
- Friends staying for free or below fair market.
- Property used by anyone in exchange for services (the property manager who got a free week).

**What does NOT count as personal use**

- Days the property is rented at fair market value.
- Days you stayed primarily to perform maintenance or repairs, must be substantially full days of maintenance.



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### Part 2: Quick self-check (do this before talking to a QI)

Answer these for the property you're selling:

- I've owned it for at least 24 months.
- In each of the last two 12-month periods, it was rented at fair value for at least 14 days.
- In each of those periods, my personal use was less than the greater of 14 days or 10% of rental days.
- I have records (calendar, booking-platform exports, bank deposits) to prove all of the above.
- The property is currently held for investment or rental, not as my primary residence.

If you can check all five boxes, you're in the safe harbor. If you can't, you may still qualify but you should talk to a CPA about your specific facts before proceeding.

### Part 3: The two timing deadlines that catch most people

**Day 0:** The day you close on the SALE of your relinquished property. This starts the clock.

**Day 45:** You must IDENTIFY the replacement property/properties in writing, signed and delivered to your Qualified Intermediary (QI). After day 45, you cannot change your list.

**Day 180:** You must CLOSE on the replacement property by this date.

These deadlines are calendar days, not business days. They include weekends and holidays. They cannot be extended for any reason except a presidentially declared disaster. If day 45 or day 180 falls on a weekend, the deadline is the calendar day, not the next business day. Plan accordingly.

### Part 4: How to identify replacement properties

Pick ONE of these three identification rules:

#### Three-Property Rule (most common)

Identify up to three properties of any value. You only need to close on one.

#### 200% Rule

Identify any number of properties as long as their total fair market value does not exceed 200% of the value of the property you sold.

#### 95% Rule

Identify any number of properties of any value, but you must actually close on properties whose value is at least 95% of the identified total. Rarely used. The math is unforgiving.

## Part 5: The Qualified Intermediary (QI) requirement

You cannot touch the proceeds from the sale. If the title company hands you a check at close, you have "constructive receipt" and your 1031 is dead.

The QI holds the proceeds between sale and purchase. They are a required third party. Cost typically \$750 to \$1,500 for a standard forward exchange.

**Pick your QI before you list the relinquished property for sale.** The exchange must be set up BEFORE the relinquished property closes. There is no fixing this after the fact.

## Part 6: Reverse 1031, in plain English

Use a reverse 1031 when you find the replacement property BEFORE you've sold your existing one and you don't want to lose it.

### How it works

- You (the taxpayer) cannot own both properties at once during the exchange.
- An "Exchange Accommodation Titleholder" (EAT) takes title to the replacement property temporarily.
- You have 180 days to sell your existing property and complete the swap.

### Forward vs. reverse 1031: decision tree

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Have you already found the replacement?
■■■■ No → Forward 1031 (standard)
■■■■ Yes
    ■■■■ Will your existing property sell within ~60 days?
        ■ ■■■■ Yes → Forward 1031 still works
        ■■■■ No → Reverse 1031
  
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### Reverse 1031: costs and pitfalls

- **Cost:** \$5,000 to \$12,000+ depending on QI and EAT services. Much more complex than forward.
- **Cash flow:** you fund the replacement purchase entirely yourself (bank loan plus your cash) because no sale proceeds are available yet.
- **Lender limits:** some lenders won't lend to an EAT-held property. Ask in advance.
- **Same 180-day deadline** to close the loop. Miss it and the whole structure unwinds.



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### Part 7: Common pitfalls that kill STR 1031s

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#### **Pitfall 1: Overusing the property**

If you went over the 14-day or 10% personal-use cap in either of the last two 12-month periods, you fall outside the safe harbor. Document carefully.

#### **Pitfall 2: Receiving cash at close**

Any cash you receive that isn't immediately handled by the QI counts as "boot" and is taxable. Even small amounts cause big problems.

#### **Pitfall 3: Wrong replacement property type**

The replacement must also be held for investment. Buying a primary residence with 1031 proceeds disqualifies the exchange.

#### **Pitfall 4: Identifying too few or too vaguely**

"A property in Palos Verdes" is not a valid identification. You need a specific address.

#### **Pitfall 5: Underestimating state-level rules**

California conforms to federal 1031 with caveats. If you eventually sell a CA-1031-replaced property, California can come back for its share. Talk to a CPA about state-level deferral mechanics before you do an out-of-state exchange.

#### **Pitfall 6: Treating personal-use overrides as small problems**

A few days over the cap CAN disqualify the entire exchange. The IRS is not generous on this.

### Part 8: Documents you'll need ready

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- **Title and closing documents** for the relinquished property.
- **Two years of rental records:** bookings, calendars, deposits, expenses.
- **Two years of personal-use records:** when you were there, why, what days.
- **QI engagement letter** signed before sale closing.
- **Identification document** (template provided by your QI).
- **Replacement property purchase contract**, signed.
- **Lender approval** if financing the replacement.

## Part 9: A realistic timeline

Day	Action
-90	Choose a QI and engage them in writing.
-60	List the relinquished property. Brief your listing agent on the 1031.
-30	Begin shortlisting replacement properties.
0	Close on relinquished property. Proceeds go to QI.
1-30	Aggressive replacement-property hunting.
31-45	Final identification. Document in writing to QI.
46-150	Close on replacement property. Don't wait until day 175.
180	Last day to close. After this, exchange fails.

### Have a specific 1031 scenario?

Including reverse 1031 questions. The right move is a conversation before you list. Once your property hits MLS, your timing options narrow fast. Bring the relinquished address, your timing, and your replacement candidate. We'll figure out forward vs. reverse for your situation.

**Book at [sellwithzoli.com/str-investor-resources](https://sellwithzoli.com/str-investor-resources)**



## LA SHORT-TERM RENTAL RESOURCES

### Contact & about the author

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Zoltan Peresztegi is a licensed California Realtor® who hosts short-term rentals in the South Bay and Pasadena. He focuses on helping investors underwrite, acquire, and operate STRs across LA County, including timing 1031 exchanges that comply with the Rev. Proc. 2008-16 safe harbor.

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