Don't Panic On News Headlines
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The emotions of people fluctuate in the extreme more than facts often support. In the age of Facebook, where people not only expose their personal lives and feelings to the world, but friends also comment, often with exaggeration, we are seeing a cultural shift where people will laugh, or cry, much more loudly than necessary.

This principle can affect real estate markets and financial markets. Just look at how FED President Ben Bernanke's words in a press conference affected the bond and stock markets this last 2 weeks, when all he said was that the FED 'may' adjust its policy on pumping cash into the economy if conditions allow.

Interest rates rose and, probably, your own fear factor exacerbated by news headlines, causing you to question your own home buying plans. Today, I offer you a contrarian philosophy. Do not panic on news headlines. Keep in mind that the news media want more 'extreme' in their programs in order to win your attention and thus increase their profits from advertising dollars.

'Extreme' rules in today's generation, from sports to movies, and what comes next when 'extreme' is not enough is anyone's guess. For myself, I prefer to remain sober (even at a party), and rational. The God-given gift of reason must not be diluted, either with drugs or the unfiltered barrage of headlines from electronic sources. You will tend to grow in a direction of the friends you choose and adopt similar attitudes, so choose that company with care.

The fact is that the markets, financial and real estate, were seriously damaged in 2008. In the last 5 years those markets have been in hospital around the world. The first country where the financial epidemic broke out was our very own USA, and the first country regaining health has been the same. The United States is, today, the soundest place to invest on the planet.

Investors from Turkmenistan to Luxembourg to Chile, not to mention Germany, Russia and Hong Kong all know this. Professional investors around the globe will continue to place their bets on the American table because the United States is in a slow, but steady, recovery mode.

Interest rates may rise some, but not much for some time, and so will your prosperity, particularly in Alaska. Confidence itself is a creative force, and there is no reason for you not to proceed with your real estate and other financial plans, irrespective of the doomsayers you may have in your social circle.

Confidence is Windsor's drug of choice. Discard fear with your trash pickup this week!

Dear Dave: I sold a rental house recently in Seattle and want to execute a 1031 Exchange into a single family home in Anchorage. If I decide to buy the property in Anchorage, can I move into it myself later this year and still avoid the capital gains tax from the Seattle sale?

Answer: Really good question. We shall assume that you comply with all the other 1031 exchange rules – i.e. you used a "facilitator" for the Seattle sale and did not personally receive the proceeds and, second, that you identify the Anchorage replacement property within 45 days of the Seattle closing.

Let us proceed. First, all 1031 “exchangers”, like yourself, should never forget that this obscure section of the I.R.S. tax code does not “void” capital gains tax. It simply “defers” capital gains tax. That is, when you replace one investment property with another, you are considered to have an “uninterrupted” investment and, under Section 1031, treated as though you did not sell your rental property at all. You just relocated it.

As such, your investment remains intact and the time to tax you for any capital gain has not yet arrived. However, even though you could keep exchanging 1031 properties over and over, one day, when you finally cash out, the ultimate sale proceeds will be subject to a capital gain calculation, and who knows what the rate of tax may be legislated at the time?

As regards moving personally into a 1031 exchange property and making it your residence, the I.R.S. code does not say that your 1031 exchange did not take place. If the exchange is for a rental house in Anchorage and you do actually rent it out initially, there is no reason why you could not make it your personal residence later and still defer the tax problem until you sell. The tricky part is to demonstrate that this was not a “scheme” to avoid the capital gains tax when, all along, you wanted a home for yourself in Anchorage.

Most exchange facilitator professionals will advise that you stay out of your 1031 exchange investment for at least 1 year after purchase. However, the I.R.S. code places no time limit itself. The point of the Act is that, if you “intended” to exchange the investment, one for another, tax is deferred until the subsequent property is sold.

If you move into your 1031 exchange house, say, after renting it out for 3 months, it could be a red flag concerning your intention. You should most definitely consult with a CPA or Tax Attorney when making this kind of decision. Both ‘entry’ and ‘exit’ strategies can determine your tax liability. One good source for advice on the precise regulations are the experts at Alaska Exchange Corporation on 907-274-1031.