# The Full Stack in One Page

1031 for most of the property + the boot as a structured sale + each payment's gain into a new Opportunity Zone fund.

**1. The 1031**
Most of the property rolls into replacement real estate. Gain on that part stays deferred.

**2. Structured boot**
The leftover (boot) is written into the contract before closing and paid to you over years, taxed as paid (§453(f)(6)).

**3. Fund ladder**
Each payment's gain goes into a new Opportunity Zone fund within 180 days. Each one runs on its own clock.

**A 1031 alone ignores the estate problem.** The step-up erases income tax, not the 40% estate tax above $15,000,000 per person ($30,000,000 a couple). Boot sized to your suspended losses can fund a life insurance policy in an irrevocable trust that pays it (extreme example in The Waterfall Strategy; most people get part).

## Model run: $3M California rental, $1.8M gain

| 20-year wealth after tax | Fund +6% | Fund 0% | Fund -30% |
|---|---|---|---|
| Cash sale, pay the tax | $5.26M | $5.26M | $5.26M |
| Cash sale + whole gain in one fund | $6.10M | $4.24M | $3.67M |
| 1031 + structured boot, no fund | $5.85M | $5.85M | $5.85M |
| **Full stack** | **$6.24M** | **$5.39M** | **$5.14M** |

Married, $250,000 other income, sale January 2027, 2026 tax tables carried forward. $2M 1031 replacement (modeled as a Delaware statutory trust interest, no debt) + $1M boot paid in 10 level annual payments at 4.5%. Fund returns are net of all fees, no distributions. A taxable portfolio earns 6% before tax. Illustrative engine output, not a forecast.

**The break-even.** In every case modeled, the fund had to earn about **3.6% to 4% a year after fees** to beat paying the tax and investing the rest (full stack vs the same 1031 without the fund: 3.68% at 20 years, 5.51% at 10). The tax break is worth roughly 0.5 to 0.7 points of return a year. It does not rescue a mediocre fund.

## The rules that make it work

- **New rules from 2027** (P.L. 119-21 §70421): money invested after Dec 31, 2026 gets its own 5-year deferral, then a 10% basis step-up (30% in a qualified rural fund), then no federal tax on the fund's growth after 10 years (measured no later than year 30).
- **180 days per payment**: start each window the day a payment arrives, or on December 31 of that year (Reg. §1.1400Z2(a)-1(b)(11)(viii)(B)).
- **2026 sellers**: gain realized in 2026 and invested on or after Jan 1, 2027 gets the new rules (Notice 2026-40 §4.02(2)).
- **Only the gain goes in.** On a $3M sale with $1.8M of gain, 60 cents of each principal dollar. In a 1031 the basis rides to the replacement, so boot principal is usually all gain.

## What can and cannot go in

| Piece of the payment | Into a fund? |
|---|---|
| Gain on principal | Yes, within 180 days |
| 25% unrecaptured §1250 layer | Yes; keeps its 25% character when it comes back |
| Interest | No, ordinary income |
| §1245 recapture | No; ordinary, taxed in the sale year (§453(i)) |
| Basis coming back | Not needed; yours to keep |
| Gain from a sale to a related party | No |

## Year 5, California, paperwork

- **Year 5:** each investment's deferred gain comes due, minus the 10% (30%) step-up, or less if the fund fell. Funds usually pay nothing that year. Ten investments, ten bills: plan the cash on day one.
- **California does not conform**: no deferral, no step-up, no exclusion (FTB Pub. 1001; R&TC §18036(e)). It taxes the gain as each payment arrives and the fund's growth at exit. California sellers in the models still kept 89% to 99% of the Texas benefit. Cash sale + one fund can need outside cash for the state tax.
- **Forms:** Form 8949 code "Z" for each deferral; Form 8997 every year (missing it is presumed an inclusion). A missed 180 days means no deferral for that payment.
- **At death:** heirs owe the deferred gain at the 5-year date, no step-up on the fund interest; the 10-year clock carries over.

## Questions to ask your CPA

- [ ] How much of each payment is gain, interest and recapture, year by year?
- [ ] Payment-date or December 31 start for each window? Put it in writing.
- [ ] Where does the cash for each year-5 bill come from?
- [ ] What does my state do with the deferral and the fund's growth?

## Questions to ask any fund (through a licensed securities professional)

- [ ] All-in fees, including selling commissions (5.5% to 10% in a Form D sample of brokered funds)?
- [ ] Qualified rural fund? Are its properties on the new 2027 zone map?
- [ ] What, if anything, does it pay in year 5? Minimum, lockup, accredited only?

**Have boot in your deal?** Call or text 213-414-2808 before you open escrow. *Hans Goldstein, a licensed insurance agent (CA Insurance License #4273294), will contact you and may discuss insurance products, including annuities.*

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